



European

Dialogue

THE MAGAZINE FOR EUROPEAN INTEGRATION

JANUARY-FEBRUARY 1998/1



ECHO takes lead on aid
Expanding role for TAIEX
Next step: negotiations
Competition challenge
Pension reform

CEE: X/15



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WATER...

Source of Life **Source of Danger**

Cracow

March 4-6th 1998

Poland

University for Mining and Metallurgy

OBJECTIVES AND CONTENTS

Part 1 : Seminar

Approximation and preaccession strategy

This seminar intends to inform participants from industry, R&D institutions and authorities about:

- the approximation policy of Poland to EU legislation and standards in the fields of potable and waste water management as well as assessment and prevention against flood disasters
- the support delivered by the European Commission in this process to Poland and the other candidate countries for accession to the EU
- the possibilities of international co-operation within the several European platforms, putting the accent on the possibilities within the Fifth Framework Programme and on the synergy between the European initiatives and EU programmes.

This seminar intends also to offer all the key players from industry and research, as well as the decision-makers, a platform to discuss these themes with representatives from the Commission.

PARTICIPANTS

- Researchers from universities, research institutions and industry
- Equipment manufacturers and suppliers (water treatment and distribution)
- Consultancy firms
- Water supply companies
- Local, regional and national authorities and
- Representatives from international organisations

Part 2 : Brokerage Event

Source of Life - Source of Danger

This Brokerage Event aims at giving the opportunity to industrialists, consultants and researchers to participate actively in technological workshops and discuss co-operation opportunities among each other and with regional and national authorities in order to find partners for national or EU-funded transnational co-operation projects. The participants present their own ideas, problems and perspectives. They offer their know-how and they aim to develop and offer new, close-to-the-market products, processes and services dealing with:

- **Assessment and prevention in**
 - *hydrology* - survey of rivers' level and pre-warning systems
 - *meteorology* - survey of weather conditions and pre-warning systems
 - *hydrogeology* - new methods for construction of river embankments and dams
 - *ecology* - sustainable methods for flood defence under consideration of environmental requirements such as retention (polders, wetlands, open pits as water reservoirs and others), bioengineering methods, landscape management
- **Potable water production and distribution plants**
 - new cleaning and repair methods for existing production and supply equipment and pipes
 - production of potable water from uncertain sources
 - new concepts and developments for potable water production plants, such as from alternative sources
- **Sludge and waste water treatment**
 - safety of existing waste water treatment plants (industrial as well as public)
 - sludge treatment and utilisation

THERE ARE NO PARTICIPATION FEES

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MEMBERSHIP NEGOTIATIONS

Following the Luxembourg summit where the EU announced which countries will start membership negotiations this year, a lengthy and complicated process began. European Dialogue discusses what happens next.

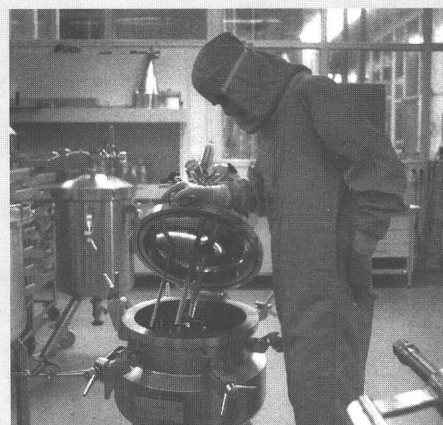
APPROXIMATION: 14 COMPETITION

Getting competition policy onto the statute books is only half the challenge. Candidate countries also need effective administrations to curb abuses and break-up cartels.

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Pension reform is a significant component of reform in all 10 candidate countries. European Dialogue explores why change is needed not just in the candidate countries, but within the EU member states.



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TAIEX's role is being expanded and its mandate lengthened to allow it to help guide candidate countries through the maze of EU law in preparation for membership. European Dialogue looks at the role the office has and will be playing in the enlargement process.



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Economic developments in the 10 candidate are gradually becoming less homogenous. European Dialogue presents the latest forecasts.

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CEE: X/15

ECHO extends EU's helping hand throughout the world

Humanitarian aid has become a key component of EU policy over the last decade. The service through which the Commission and member states channel this aid has grown and developed into an internationally acclaimed body which helps make a real difference in the world's trouble spots.

The European Community Humanitarian Office (ECHO) is in a slightly strange position as a Commission service. There is no mention of humanitarian aid in the EU treaties. Some may question why there is any need for EU-level humanitarian policy at all, since member states all have their own mechanisms to deal with crises. There are, however, compelling reasons for ECHO's existence. According to Humanitarian Affairs Commissioner Emma Bonino's spokesman, Filippo di Robilant, the need for ECHO is based on shifts in global

politics. Before 1989, he says, the basic two superpower political structure had the dubious benefit of stopping most man-made crises erupting as one of the superpowers would generally be there to keep things quiet.

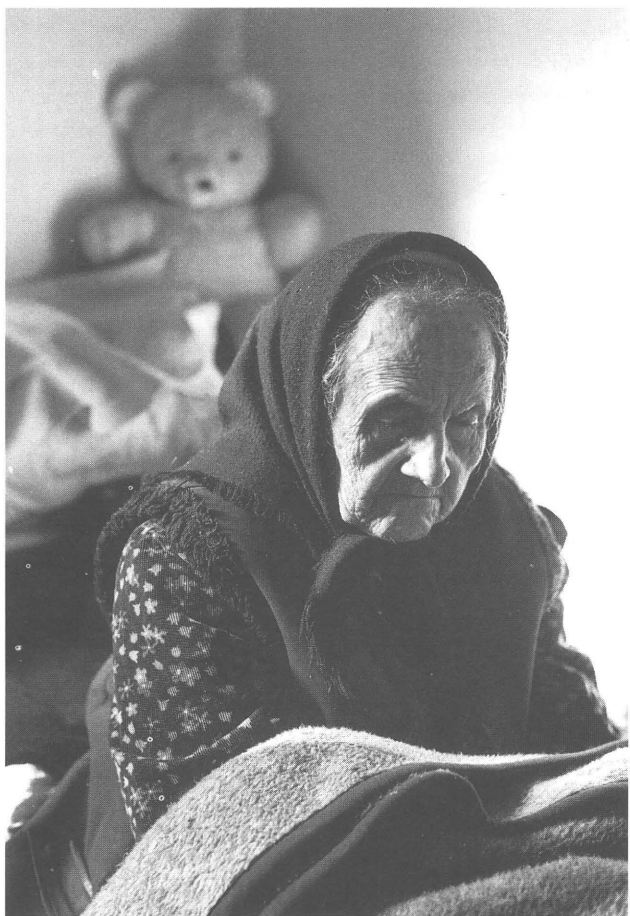
Since the disintegration of the Soviet Union and its political power-base in Europe, however, a multitude of regions artificially held together have collapsed into conflict. Prime examples of this are former Yugoslavia, the Great Lakes region in Africa and other African states. "Such disasters would never have happened during the cold war," says Mr di Robilant.

At the same time the individual member states of the EU have been gradually pulling out of their previous zones of influence and reducing their bilateral aid programmes. Britain and France, for example, are increasingly becoming more removed from former colonies.

With no real common foreign policy, the EU needed a body that could carry its flag overseas.

That is why in the early 1990s former Commission President Jacques Delors and Commissioner Manuel Marin decided to set up a structure to fill the vacuum. The solution was ECHO. It finances operations throughout the world, but leaves all the actual work to a series of partner institutions with which it works and which carry out its humanitarian operations in the field. "It was a bold and far-sighted move," says Mr di Robilant.

ECHO's ability to promote itself, and by default the EU, often takes the rest of Brussels bureaucracy by surprise. For example, when the Commission headquarters at the Berlaymont in Brussels was closed for refurbishment, ECHO spotted a rare opportunity to publicise its work. Onto the Berlaymont building's huge white drape, which covered it in order to protect the outside world from asbestos, the organisation projected a 30-foot high scrolling advertisement highlighting its achievements and giving the general public into the more caring face of the EU. Its flamboyant self-publicity and headline-grabbing stunts impart upon it a strange kind of autonomy unusual for the EU's executive.



A. Holmann

Older refugees from the war in former Yugoslavia are a particularly vulnerable group.



A. Holmann

Displaced persons in the Croatian conflict cannot comprehend the sudden disruption of their lives.

During Brussels winter evenings, this oversized cinema screen proclaimed ECHO as the world's premier humanitarian aid outfit and listed the 170-odd international and non-governmental organisations (NGOs) which helped to keep it that way.

Beaming into the administrative heartland of Europe, it was a bold move. Its Las Vegas-style promotion was far from a sure success in a city not known for flamboyant publicity stunts. Yet, given the admiring comments it drew from those who saw it, the tactic worked.

In some ways the projection was illustrative of ECHO. Set up in 1992 it has been led since 1995 by the charismatic European Commissioner Emma Bonino. ECHO has attracted global attention with its activities ranging from the former Yugoslav republics to the Rwandan refugee camps, to storm-devastated countries in the Caribbean.

ECHO's mandate covers:

- general humanitarian aid, usually for those affected by long-running civil wars
- emergency humanitarian aid, financing of first aid crisis management for victims of natural disasters or civil wars
- emergency food aid, sent to people threatened by famine as a result of natural disasters or civil wars
- aid for refugees or displaced people, especially those in acute need, both where they find sanctuary and when they return home
- disaster preparedness, such as early warning systems or financing disaster prevention in high-risk countries.

In essence it funds quick responses to emergencies, responding to the immediate needs of victims. ECHO does not, however, deal with the longer-term aspects of reconstruction and development — both of which are left to other Commission bodies. Nevertheless, the office is finding itself increasingly involved in longer-term thinking, as analysts begin to acknowledge the obvious synergies that can be achieved by greater co-ordination between different Commission services.

Another important distinction between ECHO's work and other forms of aid is that the assistance is given irrespective of race, nationality, religion or political convictions. A country which would otherwise be barred from receiving EU development aid — such as the Congo (previously Zaire) — can still benefit from ECHO's work. With around 120 staff in Brussels and another 70 in the field, ECHO cannot implement its aims without help. So it uses a wide network of partner organisations including United Nations agencies and international bodies. The relationship with the Commission is codified in framework partnership agreements.

These documents ensure that those who work with ECHO subscribe to its non-partisan values and are both able and willing to commit their resources to EU-financed operations.

The relationship is complex and reciprocal. The organisations involved clearly gain from ECHO's official sponsorship and the global acclaim that often follows. On the other hand, the partners provide essential input to ECHO's policy-making process, linking their experience on the ground to the Commission's administrative expertise.

Making sure only the right organisations join is especially important, given the ambassadorial role ECHO's partners play.

Can you imagine being old, living in a city where you get just enough to buy 27 loaves of bread or two kilos of meat a month? Or sheltering from -20°C temperatures in a 20-foot container, in a family of seven with a two-year-old child? Alternatively, imagine that you have lost everything, live in a 20-square metre adobe hut with your neighbours only 10 meters away and surrounded by deep rain-sodden mud.

ECHO's correspondent in Armenia, Azerbaijan and Georgia

Mr di Robilant explains. "We believe that these non-governmental organisations and the young men and women who do their work, often on a voluntary basis, are very important for Europe's image abroad. The sight of young and dedicated Europeans working tirelessly to help alleviate suffering is important in dispelling the stereotypes engendered by a century of colonialism from many European states."

Adding to its close contacts with specialist organisations, ECHO stays in regular contact with experts from European national administrations. This has been particularly true, for example, in the war-torn former Yugoslav republics, where ECHO heads the European Community Task Force, set up by EU leaders in 1992. The service also has ties with other country aid organisations, most notably with USAID.

In December 1995 ECHO and donors from all over the world held the first global humanitarian summit. The participants agreed what is now known as the Madrid Declaration. This called on the international community not to look away when humanitarian crisis occur. It also sowed the seeds of a global crisis prevention system and a world-wide campaign against hunger. The declaration demanded immediate attention to the needs and protection of all victims, especially women, children and the elderly.

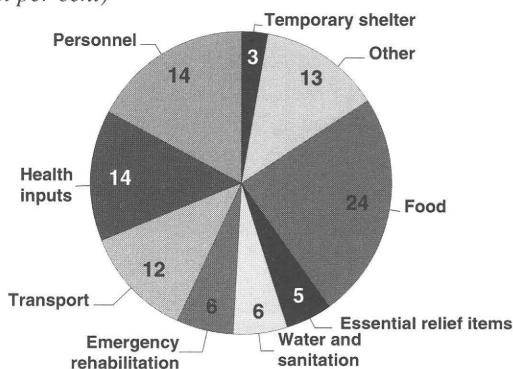
The relationship between ECHO, its partners and other aid organisations has not always been trouble-free and recently came under some criticism from the European Court of Auditors. The court pointed to a lack of policy transparency and co-ordination over the 1992-95 period. It felt there was insufficient on-the-spot monitoring of projects.

But ECHO officials, while taking these findings to heart, stress that the nature of their organisation and situations with which it is confronted dictate a more as-we-go-along response which the auditors will probably continue to find puzzling, but effective. ■

Reports by Alistair Keene, Brussels

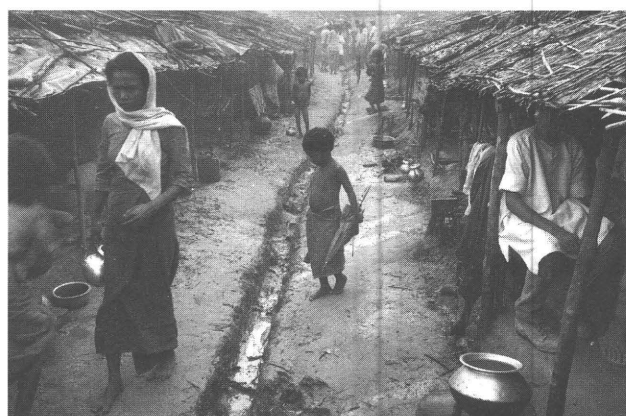
Breakdown of ECHO operations by sector

(1996, in per cent)



Source: ECHO Facts and Figures for 1996.

More information on ECHO is available from ECHO, Rue Belliard 232, 1040 Brussels (Tel: (322) 295 4400; Fax: (322) 295 4572; WWW site: <http://europa.eu.int/en/comm/echo>). ECHO, headed by Alberto Navarro Gonzalez (Tel: (322) 295 4249; Fax: (322) 295 4578), is divided into units each dealing with a specific geographical region. ECHO1 (ACP - African, Caribbean and Pacific Countries) is headed by Hubert Onidi (Tel: (322) 295 3308; Fax: (322) 299 2877); ECHO2 (CIS, former Yugoslavia and central Europe) is headed by Esko Kentrschynskyj (Tel: (322) 299 3085; Fax: (322) 295 4551); ECHO3 (Asia, except Central Asian republics, Latin America and non-ACP countries) is headed by Sabato Della Monica (Tel: (322) 295 4379; Fax: (322) 295 4571); ECHO4 (planning, strategy and policy analysis) is headed by Mikael Barfod (Tel: (322) 295 4278; Fax: (322) 299 2853); disaster prevention and preparedness is headed by Jean-Claude Heyraud (Tel: (322) 296 9471; Fax: (322) 299 1173).

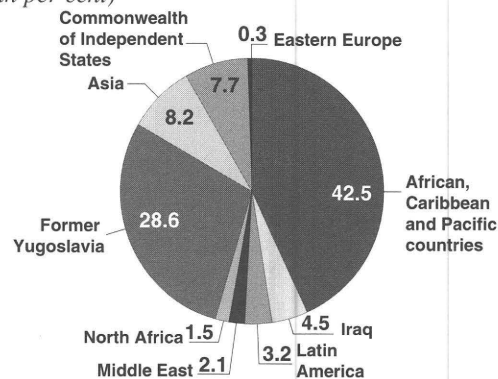


I cannot shut out the faces of the people we encounter every day, full of yearning to go home. They have not regained their lives and continue to wait for deliverance. The Croat-Muslim Federation, the territorial integrity of Bosnia and Herzegovina and the end of the war have done little to improve their lives.

ECHO's correspondent in Sarajevo

Breakdown of ECHO operations by region

(1996, in per cent)



Source: ECHO Facts and Figures for 1996.

ECHO expects the unexpected

Since 1960 over 8,000 natural disasters requiring massive international aid have been registered worldwide. Shockingly, these events appear to be getting worse as time goes on, through a mixture of more violent weather and a diminishing ability in developing countries to deal with them. Clearly local disturbances, such as civil wars, have made droughts or famines even harder to deal with. The real tragedy is that with better planning, many of their victims might not have suffered so badly. Working on the old adage that an ounce of prevention is better than a pound of cure, ECHO has set up a disaster preparedness programme to try to anticipate and thus alleviate such crises.

Since 1994 ECHO has spent over Ecu 12m on disaster preparedness operations, mostly dealing with natural catastrophes, but also for natural disasters with man-made causes. Examples of the programme include early warning systems and a flood insurance fund in northern Bangladesh and adapting buildings to resist natural disasters, like floods, heavy rain and earthquake.

Although it is difficult to measure accurately, there is some evidence that these measures do work. The 1991 cyclone in Bangladesh, for example, caused far fewer deaths and damage than one in 1974, at least partly because of cyclone shelters, better communications and trained local helpers.

ECHO has chosen to focus on three types of disaster preparedness — training local people, improving management and institutions and finding community-based, low-cost technology solutions. Regional focus centres are intended to prepare handbooks and foster local contacts. ECHO is also working with organisations and governments in disaster-prone countries to make institutions stronger and better able to cope with problems, including improved information technology. ■

These people had recently returned from more than two years in the refugee camps of Tanzania, some 200 km to the south. You could tell because almost everything they had was aid in one form or another. The hoes were probably donated by the EU. The sacks had once contained EU food aid. The jerrycan I had carried was from UNHCR. And the temporary shelter they now lived in was covered in ECHO-marked white plastic sheeting.

*ECHO's correspondent
in Rwanda*



Afghan refugees learning a trade at the UNHCR-sponsored Pakistan government training school.

HJ Davies

Charismatic Bonino leads ECHO

At least part of ECHO's success in recent years must be put down to the dynamic leadership of the Commissioner responsible for the office, Emma Bonino. Almost unknown outside Italy before she joined the European Commission in 1995, Ms Bonino since then has fast established herself as one of Europe's new-wave leaders. A tireless worker, Ms Bonino is refreshingly casual — apparently as happy charging



A nurse in Somalia analyses blood tests.

through dusty African roads in combat fatigues as sporting a snappy suit in Brussels — and often surprises outsiders with her candidness.

Although her up-front style has ruffled feathers in the past, most commentators agree that it has provided an important element in ECHO's vitality. At a time when the world had all but forgotten about the crisis in the Great Lakes, Ms Bonino continued to warn that unless the international community helped, there might be worse to come. Often a lone supporter of causes long-abandoned by the international media, Ms Bonino has given the EU a human face — although in a tough, no-nonsense guise — that rarely existed before.

Originally Ms Bonino was only to have held the consumer policy portfolio after her surprise nomination by the then Italian Prime Minister Silvio Berlusconi. After complaining bitterly that this was hardly in keeping with her country's political weight, she took over the ECHO dossier from Spain's Manuel Marin. She did not, however, succeed in her desire to create a separate portfolio covering human rights, instead becoming the Commissioner for Fisheries after Norway voted not to join the Union. ■

ECHO makes a difference world-wide

BOSNIA

When visiting Bosnian refugee camps today, youths dressed in ECHO T-shirts are not an uncommon sight. Yasna (15-years-old), originally from Sarajevo, remembers ECHO's food parcels during the siege and the medicines she got for her asthma. Throughout the conflict, ECHO provided essential food and medical aid, winter clothing, co-ordinated a large hygiene programme and cared for those traumatised by the war. Following wide-spread reports of rape and maltreatment of women in former Yugoslavia, Europe woke up to the need to organise psycho-social help for traumatised people on a large scale. Health and social welfare services were well developed in this area. However, the remaining services, drained of many of its qualified professionals, were overwhelmed by the wave of refugees and wounded. As a result ECHO increased its aid to psycho-social projects to total Ecu 8.24m from May 1995 to April 1996.

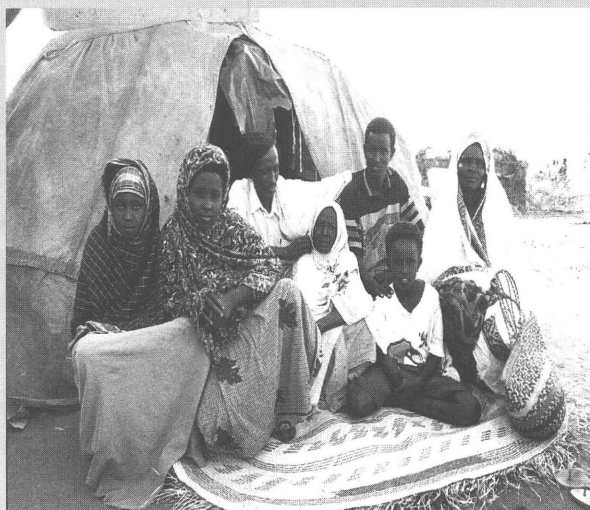
The main beneficiaries of psycho-social projects are the thousands of near destitute women and children living in refugee camps peppered around Bosnia-Herzegovina.

All have lived through one or more traumatic events and still await news of relatives and on the possibility of returning home. For example July 11 1995 marked the fall of the UN protected town of Srebrenica in Bosnia and with it the massacre and disappearance of around 8,000 men and boys as well as the exodus of their womenfolk.

In fleeing all of these women and children suffered continued food shortages, witnessed executions and some were also detained in concentration camps where they were sexually tortured. ECHO tried to break these women's isolation and despair by encouraging them to join women's centres where they could rebuild their support networks. Other services range from psychotherapy and medical aid to kindergartens for children. Over the past few years ECHO has tried to help victims of sexual torture through actions such as Austria's mobile gynaecological and paediatrics clinic which travels around refugee centres in the Tuzla area.

THE GREAT LAKES

Although the images of the genocide in Rwanda are fading into the distance, 1996 marked a renewed crisis in the Great Lakes region of Africa. ECHO runs a programme of emergency aid, repatriation and resettlement for refugees returning to Rwanda which totalled over Ecu 205m in 1996 — its largest humanitarian operation that year. Working in this area is particularly difficult because of factors such as the lack of safety for aid workers and refugees, difficulties in tracing refugee movements, lack of co-operation from the soldiers and the sheer numbers of needy people. ECHO provides medical aid, tent housing, sanitation, helps trace the relatives of lost children and provides food aid in dangerously over-crowded prisons.



B. Press

SOMALIA

The withdrawal of UN peace-keepers from Somalia in early 1995 marked the pull-out of numerous humanitarian organisations. Despite continued security risks for aid workers, ECHO still maintains a limited aid programme which targets key areas such as basic health care, food, water and sanitation and food security. To reach remote areas where roads are unsafe, the ECHO flight airlift programme brings in personnel and supplies. During the height of the crisis in spring 1992, Somalia counted over 2m people dying of starvation. Today wide-spread starvation has been replaced by malnutrition. This is tackled by organisations such as the French-run Action Internationale Contre la Faim (International Action Against Hunger) which received Ecu 700,000 in July 1997 to run a nutrition programme in Mogadishu.

AFGHANISTAN

Throughout the civil conflict in Afghanistan, ECHO has refused to yield to donor fatigue and has supported the remaining handful of non-governmental organisations working there. In 1996 the country once more came to the forefront when the Taliban gained control of the capital, Kabul. ECHO granted a total of Ecu 41.15m that year in humanitarian aid. As ECHO's correspondent in Kabul put it: "We supply water, demine, feed malnourished children, vaccinate and in the winter give out quilts, plastic sheets and charcoal." Casualties from the conflict still stream into the hospitals where there is a chronic lack of personnel, especially nurses, due to the Taliban's restrictions on women working outside the home. Indeed, ECHO is now having to focus aid on the high number of war widows responsible for providing for the families, but unable to do so because of Taliban wage freezes and seriously limited employment opportunities outside the home.

CAMBODIA

In a country that has become synonymous with political disturbance, ECHO has been able to give some hope to thousands of displaced people that have fled coup and counter-coup over recent years. Minefields still provide a constant source of danger to ordinary people, while many are denied the most essential basic infrastructure as they choose to flee for their lives. Organisations like Action Nord-Sud have also been active in the north of the country, less under the international spotlight, keeping roads open.

HAITI

Helping to safeguard political stability in President Jean-Bertrand Aristide's newly democratic Haiti, ECHO embarked on a large-scale reconstruction programme targeting health, food, water supply and water purification. In 1994 Haiti received over Ecu 18m in aid. For example, CARE runs over 15,000 feeding centres dotted around the country and a medical supplies distribution scheme run by the Pan-American Health Organisation is now responsible for the disbursement of 85-100 per cent of medical supplies to private organisations in Haiti. Other actions include vaccination campaigns, primary medical care and supplying safe drinking water. Despite the dire need for emergency aid, ECHO-funded projects also promote self-reliance, for example through training local staff and reclaiming agricultural land.

PALESTINE AND LEBANON

As highlighted by the horrific events of 1997, tension is still extremely high in the Middle East, with Israel, Palestine and Lebanon embroiled in a destructive cycle of violence. This has made life extremely difficult for the region's citizens — especially in Palestine where the health system is in a state of near collapse. ECHO funds have been crucial to providing a minimum level of care for the most vulnerable. Palestinian refugees in the south of Lebanon also face gruelling day-to-day challenges, especially as the country's authorities deny them access to state housing, healthcare and education. Through partners such as the Palestinian Red Crescent Society, or agencies like the UN Relief and Works Agency, ECHO spent over Ecu 13m in the region in 1996.

PERU

Three years ago marked Peru's annus horribilis when it was struck by an epidemic of rabies, the bubonic plague and a cholera outbreak in Lima. In the jungle border area with Ecuador, ECHO funded the Italian non-governmental organisation Institute for Universal Co-operation to fight an epidemic of human rabies being spread by vampire bats. Over 30,000 people, including 8,000 children, deemed at risk were helped through vaccination, treatment, awareness-raising and bat culling. By June 1995 around 122 villages throughout Peru had been affected by the bubonic plague and the threat of infection hung over 4m people. In co-ordination with the Pan-American Health Association, ECHO offered treatment to the sick and contained the spread of the disease through insecticides to eradicate the plague-carrying flea.

ANGOLA

Three years of official peace in Angola (since the 1994 deal between Unita and the government) has given international organisations a crucial chance to pick up the pieces of 20 years of war. ECHO's task in the southern African country has been to help thousands of people regain access to the most basic services — such as primary healthcare, drinking water, education and essentials like salt and soap. Unfortunately, efforts have been hampered by a lack of information on minefields, or areas still controlled by bandits. Humanitarian aid workers still face substantial personal risks in the country as a result. Nevertheless, in areas like health the first moves are being made to progress from humanitarian aid to development. ECHO spent Ecu 14m in 1996 on projects in the country.



Liba Taylor/Save the Children

CENTRAL AMERICA

This storm-damaged and war-weary region of the world still needs all the help it can get from the international community, even though its recent lack of overt conflict has kept it out of the news. The 1996 storms provided some crucial work for organisations in Nicaragua and neighbouring countries, with ECHO funding immediate drainage facilities and distribution of food and medicines. The region has been an important recipient of ECHO disaster preparedness aid. Man-made disasters are also of serious concern: in the north of Panama, for example, ECHO has been an essential source of aid to Ngobe-Bugle Indians, who are being pushed out of their traditional lands by industrial farms. ECHO has also been active in Cuba and Haiti.

IRAQ

With Sadaam Hussein still in power, Iraq remains excluded from trade and aid. Its people — especially the Kurds in the north — have suffered terribly as a result. ECHO has launched a campaign to break down barriers and provide the region's inhabitants with a minimum standard of living. Since 1991 around Ecu 150m in humanitarian aid has been provided by the EU, originally to provide emergency food supplies, and as time went on to counter the effects of Baghdad's economic embargo on the Kurds.

UKRAINE AND CHERNOBYL

Although the clouds of radioactive dust no longer float across Europe, the long-term effects of the Chernobyl explosion are still blighting the lives of hundreds of children. ECHO has provided medicines and diagnostic equipment for the 800 plus adolescents with thyroid cancer, many of whom are only now finding out what the 12-year disaster means in practice. ECHO has supplied over Ecu 8m in aid to sufferers. ■

Partner organisations spread ECHO's reach

UNHCR

The Office of the United Nations High Commissioner for Refugees (UNHCR) is the UN's main agency for providing assistance to refugees world-wide. Established in 1951, its two main functions are to provide international protection to refugees and to seek durable solutions to their problems. UNHCR is the European Commission's largest individual partner for humanitarian operations and in 1994 around 22 per cent of UNHCR's budget came from EU funds, most of which were channelled through ECHO. For example, in November 1995, the EU awarded Ecu 42.45m to UNHCR to provide assistance in the Great Lakes region.

International Committee of the Red Cross

The International Committee of the Red Cross (ICRC) is among the most experienced organisations working in some of the world's worst trouble spots. In 1995 ICRC received over Ecu 40m from ECHO to provide humanitarian assistance. In Chechnya, for example, ICRC received Ecu 3m to provide food aid, blankets, medicine, personnel and transport.

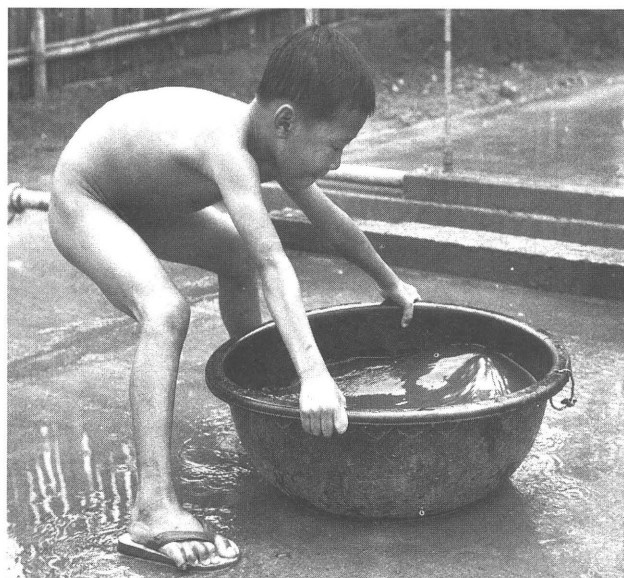
Médecins Sans Frontières

Médecins Sans Frontières (MSF) is a leading international non-governmental organisation (NGO) best known for the dedication of its doctors and other health professionals working under strenuous conditions in health crises throughout the world. Established in 1971 in France, it now has sections in the Netherlands, Belgium and Spain. MSF Belgium, for example, in May 1997 was awarded Ecu 460,000 for an emergency assistance programme for Kismayo Hospital in Somalia.



B. Press

Somalia returnees benefit from a UNHCR cross-border project to build shallow wells.



A. Holmann

Oxfam UK

Oxfam UK is a large, British NGO whose work includes humanitarian aid, working with the poor. In July 1997 it received Ecu 1.2m from ECHO to run a hygiene relief and development programme in former Yugoslavia.

Handicap International

Handicap International is an NGO which assists handicapped people in less developed countries and crisis situations. Since 1982 its assistance has ranged from fitting prosthetic limbs, physical rehabilitation to training local professionals in mine clearance. Links with ECHO include work in Cambodia where Handicap International Belgium is being financed by ECHO to carry out demining work and training workshops in rehabilitating mine victims by providing them with artificial limbs. ■

Let's talk about Madina, a beautiful Mongolian. She is 20 and a teacher. She has no job. She has no husband. A rocket landed on her family's home one day. Her parents and brother died. Her sister-in-law had a nervous breakdown. The lovely Madina has to look after 14 children and an adult. She used to have a cleaning job. In September the Taliban came and she lost it. I saw her just yesterday, a ghost in a pale blue chador. She couldn't come into the house. I was not allowed to talk to her, though we managed to exchange a few words through the fence.

ECHO's correspondent in Kabul

TAIEX meets challenge of expanded role

The Technical Assistance Information Exchange Office, known as TAIEX, was set up in 1995 following publication of the White Paper on the Single Market. Now its role is being expanded and its mandate lengthened to allow it to help guide candidate countries through the maze of EU law in preparation for membership.



One of the most practical and successful of the Commission's initiatives to help the

candidate countries prepare for EU membership has been the setting up of TAIEX. Following publication in 1995 of the White Paper on the Single Market, the Technical Assistance Information Exchange Office was established to help guide each country through the maze of legislation, helping them to put it on the statute books as well as enforce and apply the laws. Now, the office will be building on its good reputation and success.

With the publication of the Commission's opinions on the 10 candidate countries, TAIEX has entered a new phase in its existence. "Agenda 2000 gives us an open-ended remit in time — there are no deadlines imposed. We will operate as long as we are needed. We also have an open-ended commitment to cover all the *acquis communautaire* (body of EU law) and we define that as everything in the directory of European Community measures in force. We won't be restricted to just single market legislation," explains Bridget Czarnota, head of the office.

Ms Czarnota sees the extension of the office's life as confirmation of its success. Through a combination of quick

response to questions and problem-solutions, the office has gained a reputation as a practical and useful partner which responds quickly and efficiently to its client-base. Ms Czarnota sounds more like a managing director of a service company than head of an EU office. "We see ourselves as providers of a service, both to the other Commission services and to the candidates. Our concept is that the client knows what he wants. We act as a delivery mechanism. We don't have the experts here. They are in the Commission and in member states. We bring the right people together and help out on the financial side. The Commission directorates-general co-operate fully to meet our requests for information and answers. We work with individual member states who provide experts as speakers for seminars and meetings and for in-country training and problem-solving."

Responding to client needs, TAIEX has launched a number

of services providing technical assistance. Multi-country workshops are held mainly in Brussels, with the participation of EU member states and Commission officials. TAIEX also organises study visits to the Commission and member states. It has the capacity to mobilise experts from member state administrations for short-term missions in the candidate countries.

In 1997 TAIEX launched a new programme of technical workshops for executive bodies in the 10 candidate countries. Added to the TAIEX repertoire are also a variety of activities in the translation and interpretation areas. Workshops held in the EU and in the candidate countries have proved popular, with over 90 of these events held by the end of 1997 and an active programme planned for this year.

Most covered topics are agriculture, general single market legislation, social policy, environment, transport, financial services, competition and customs.

TAIEX has entered a new phase in its existence. Agenda 2000

gives TAIEX an open-ended remit in time.

With the extension of its remit by the Commission, TAIEX is now resolved to offer practical advice in implementation of the

whole of EU law. "That will mean increasing activities, the number of staff and increasing the range of skills available to us. We need to widen our resources to take into account areas outside the single market *acquis*, like transport, environment and others." Ms Czarnota also believes it is important for TAIEX to introduce new products through which it can help the candidate countries find solutions to their legislative problems as well as to bring together experts from the Commission and member states who can advise and guide officials from the candidates.

Previously TAIEX only offered help to government officials. Now it will be able to extend its services to legislators (members of parliament), the business community, local government and non-governmental organisations (NGOs). "We were already trying to go beyond our constituent public before Agenda 2000 — particularly to the private sector through representative

bodies, like chambers of commerce. The problem is we need to add a private sector dimension to our work but we do not have the expertise or the structure to deal with individual company requests. So we will be encouraging collaboration with general bodies representing business both in the EU and in the candidate countries. We want to raise awareness of the problems of enlargement for the business community, but also point out the benefits."

One of TAIEX's earliest experiences with industry was a special workshop which it helped to organise with COLIPA, the European cosmetics manufacturing representative body. "There's a lot of legislation in this area. Members of COLIPA were helpful in explaining the laws and how they work in practice at factory level. We like to encourage the building of links and networks between the European associations and the associated countries, where comparable trade bodies need to be set up. This will also assist in the transfer of know-how from the EU states to the candidates," says Ms Czarnota. "We will never refuse to answer someone," adds Ms Czarnota, "but we'd like to try to work through representative bodies, with information providers in the candidate countries. They are the more logical ones to take over the information flow."

TAIEX also has strong relations with the EC delegations in each candidate country and Ms Czarnota expects these links to grow stronger as TAIEX expands its remit. "There is always someone at the delegation who acts as a link to us. They are able to answer questions in the country and we have regular contacts with them," explains Ms Czarnota. Aside from Commission links, TAIEX has a good working relationship with all the EU member states themselves. "We don't interfere with the traditional or bilateral relations between member states and the candidates but we do provide a broad platform for all member states to see the 10 and for the 10 candidates to see all the EU member states," says Ms Czarnota. She believes this is essential in the run-up to enlargement. "We have found pairings are not predictable. We came with some stereotyped images of member states' relations with the candidates. But we've found that all the candidates are eager to meet officials from all 15 member states and that all the candidate countries are relevant to EU members."

Helping is a two-way street, explains Ms Czarnota. The workshops, study visits and other meetings organised by TAIEX benefit not just the candidates but their partners. "Commission officials are told about things by member states. Member states are told about draft laws and other developments. Everyone gets a lot of information. People find they have direct access to information. We try to keep the atmosphere at meetings practical and work-like but hope that all the participants regard each other as friends." This informal co-operation means that Ms Czarnota may be considered not just as a valuable contact in Brussels, but a friend who can help out the candidate country with any problem. Ms Czarnota spends a lot of time, like her staff, visiting and talking with officials from the candidate countries.

Building bridges between Commission officials, member states and the candidates is just one aspect of TAIEX's work. Ms Czarnota has seen changes in the way candidate country officials work together and react in groups. "We believe in

practical learning by doing. The candidates are learning to be in groups and how to form and articulate their views in public. This is one form of institution building," says Ms Czarnota. "Another spin-off which we are happy to encourage is helping to bring together candidate countries with similar requests and problems." A good example of this was TAIEX organising a workshop on maritime safety for Estonia, Latvia and Lithuania. Because officials from the three countries were together and able to talk, they hammered out a memo of understanding which was subsequently adopted by the three countries — something officials had been unable to finance by themselves. "This is tangible proof that we can make a difference. We don't push for joint policies, but by being together it happens."

Ms Czarnota is looking forward to the new challenges that an expanded TAIEX will have to meet. "Our plus point and what is needed is the ability to be flexible, to adapt to the needs and to provide the products and services which answer those needs. This is a challenge but it is also a big chance — to make something from scratch. It's an interesting job to be able to produce a new thing and to see ideas implemented." TAIEX looks set to continue its role as an information provider to the whole range of people affected by those laws for the whole of EU legislation rather than limited to single market issues. "We have the ability to be of service to the maximum number of people. We deliver." ■

- A directory of the 20,000 European legislative measures composing the *acquis communautaire* has been produced in an electronic version by the Office for Official Publications for the TAIEX office. TAIEX has delivered a CD-Rom version to the European Integration Office of each of the candidate countries and hopes to be able to offer the CD-Rom to ministries.
- More information on TAIEX and its services is available from TAIEX, 80 Avenue de Cortenbergh, 1049 Brussels (Tel: (322) 296 7307-08; Fax: (322) 296 6840).

Start of negotiations signals beginning, not end of process

When the EU announced in Luxembourg which countries will start membership negotiations this year, the successful candidates cracked open the champagne immediately. But the governments of the candidate countries are well aware the decision will only mark the start — not the end — of a lengthy and complex process.

Negotiating to join the European Union (EU) as veterans can testify, is one of the most challenging, tiring and interesting processes that those involved will ever experience. Although well-versed on the task of building an entirely new administrative system, diplomats from the candidate countries can look forward to a long and challenging haul over the next few years.

Although the 1998 talks will focus on the particular set of problems faced by the candidate countries, in some ways they will be no different from those that have gone before. Unless EU governments choose to overhaul completely the enlargement procedures, the process the prospective candidates face will be similar to the 1992-94 accession talks with the Efta countries Austria, Norway, Sweden and Finland.



relations between 'us and them', but relations between 'the future us'." As a result, and even more so as Europe tries to re-unite, the negotiations are likely to include a psychological aspect which may be unfamiliar to some of those involved.

On the other hand in formal terms, the modalities of the talks are fairly simple. After the launch of negotiations, the candidates will be presented with the EU's *acquis* (body of law) and asked if they can apply its rules and procedures. The prospective members then explain what they can or cannot do immediately on accession and may ask for derogations or transition periods where they need more time to adapt. The EU then decides if it can live with these terms and eventually settles on a mutually acceptable compromise.

In practice, however, this is the antithesis of simplicity. Working out the nitty-gritty of joining the EU, which can become intensely technical and detailed, can take years, depending on the readiness of the applicant and the acceptability of its offer. All the binding decisions which move the process along are taken at monthly negotiating sessions consisting of either ambassadors or ministers from the EU's 15 members, its Presidency, the European Commission and the applicant.

At these meetings the acting EU President sits at one end of the table, flanked by the European Commission and the Council secretariat, while the candidate sits at the other. In between sit all the existing member states' representatives. The sessions, until the end, can be very formal in nature, consisting of statements by the applicant, followed by statements of the EU's (previously worked out) positions and counter-offers. Little actual negotiation may occur — rather the meetings provide a clear statement of where the negotiations have reached lower down the hierarchy. These formal sessions also highlight the inter-governmental nature of accession talks, which are held strictly between sovereign states.

This to and fro continues until both sides feel they have agreed enough common ground to enter the decisive and

Negotiating to join the EU is one of the most challenging, tiring and interesting processes that those involved will ever experience.

One lesson that Graham Avery, who was in the European Commission's enlargement task force, learned then was that accession talks are unlike any other kind of international discussion. "The object of an accession negotiation — that is, admission to the Union — distinguishes it from other types of negotiation. What is under discussion is not

Sue Cunningham Photographic

often highly tense, final negotiations. In the past these have gone on for days and nights, unrelenting until the bleary-eyed ambassadors emerge at the end with an agreement. It is only at this point that the high-level negotiators really come into their own, with individual personalities becoming a major element of the proceedings.

The major part of any accession negotiation, however, has in the past taken part in an entirely different forum. This is where the European Commission has a vital role to play. Before anything else happens, Commission representatives sit down with their opposite numbers and explain in minute detail what the EU *acquis* actually means. This, which might seem like a formality, is actually a major element in ensuring the talks' success.

According to the Commission's Nikolaus van der Pas, who played a central role in the talks with the Efta applicants, "even with these countries we noted huge vacuums in their understanding of the *acquis*, especially their implementation. Our experience of previous negotiations shows that nine out of 10 problems go away when the applicants understand what the *acquis* really means."

In the case of the Scandinavian countries and Austria, the big concerns were over consumer protection, insufficient environmental safeguards and the EU's democratic deficit. In fact, the Scandinavians would often lecture the Union on how it should be running things.

But "when we explained the actual state of affairs, they realised things were not all that bad and they signed," remembers Mr van der Pas. In the case of the 10 candidates from central Europe and the Baltic states, the worries are more likely to focus on agricultural policy or the toughness of EU environmental requirements. Whether mere explanation will satisfy these concerns in 1998 remains to be seen.

After the first session, Commission experts enter into detailed discussions (although not negotiations) on more abiding problems with the candidates. It is at this level that the real minutiae are broached, with ambassadors and ministers only brought in when problems have been settled at a technical level, or when technicians need a political steer. These meetings will take place almost daily and often nightly, in marked contrast to the monthly assembly of politicians.

The Commission's formal role in all of this is to propose common positions to the Council, which defines the Union's standpoint. In fact it is at this stage that the hardest debates take place as the EU's existing member states strive to take a unanimous stance on the applicants' requests. In the case of the Efta countries, questions on environmental standards or how Norway would fit into the EU's fishing regime, were extremely hard to resolve.

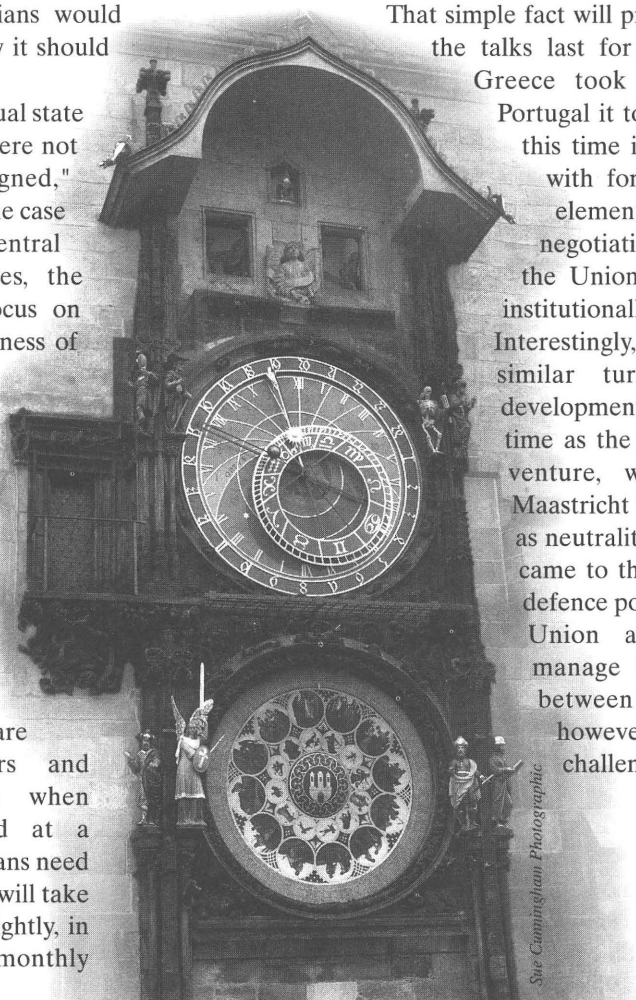
Unfortunately the 1998 talks promise even more internal debate. For example, the question of how the EU will expand its regional support programmes to the east will be fierce. Countries like Germany are trying to keep costs down while countries like Portugal are desperate not to lose their benefits. Although these debates do not strictly involve the applicants, it is clear that behind the scenes there will be a whirlwind of lobbying and consultations on a bilateral basis.

At the end of the day, however, the Union holds all the cards. Although it clearly has a lot to gain from new members and increased stability in the east, the Commission stresses it is the applicants, not the EU, that are doing the demanding. If they do not convince the Union that they can, within a reasonable period of time, fulfil the entry conditions, they will not join.

That simple fact will probably be enough to ensure that the talks last for a long time. Negotiations with Greece took three years. With Spain and Portugal it took around seven. The difference this time is that the *acquis* is much larger, with foreign, security and justice policy elements that did not exist last time. The negotiations will be intrinsically linked to the Union's internal reform process, both institutionally and in its major policies.

Interestingly, the last round of talks was at a similar turning point in the Union's development. The Efta talks came at the same time as the EU was discussing a whole new venture, which eventually became the Maastricht Treaty. Consequently, issues such as neutrality of Austria, Finland and Sweden came to the fore even though the common defence policy was not yet a reality. How the Union and the accession candidates manage this complex inter-relationship between EU reform and expansion, however, promises a whole new set of challenges. ■

Alistair Keene, Brussels



Competition policy poses challenge for candidates

Getting competition policy onto the statute books is only half the challenge. Candidate countries also need effective administrations to curb abuses and break-up cartels.



EU Competition Commissioner Karel Van Miert recently painted a broad picture of how the Community's co-operation with its counterpart authorities round the world was progressing. Relations with the US could hardly have been better with shared views and a common philosophy on most issues, Mr Van Miert said. Co-operation with Japan was sometimes difficult, he added. Finally, and after weighing his words carefully, the EU's leading opponent of state subsidies and unfair competition, concluded that on state aid especially, central Europe and the Baltic states still had to break away from its recent past and learn how to turn off, or discipline, the flow of government funds to industry. Old habits were dying hard, the Commissioner concluded.

Mastering old habits on subsidies is one of the conditions for applicant countries to join the EU and their progress in enforcing credible competition policies has already been weighed up in deciding which countries should be first in line. However, EU officials draw a clear distinction between the sluggishness of progress in putting in place procedures and practices to curb subsidies and the altogether more promising signs that countries are prepared to clamp down on anti-competitive practices by companies.

In the area of anti-trust action most candidate countries have moved relatively fast to prevent the free market from becoming a free-for-all in which companies get together to divide up markets and decide between them how much the consumer will pay for products and services. "In the field of anti-trust we have the impression that a lot has been done already in a majority of countries," says one EU official.

Hungary, the Czech Republic, Poland, Slovakia and some of the Baltic states are seen by some as having advanced furthest in putting in place authorities to tackle cartels and anti-competitive practices. Hungary already has similar laws in place to those of the EU and is following up with secondary legislation on such issues as block exemptions which will automatically exclude certain types of agreements from competition scrutiny.

However, there is a concern that not all the authorities have been given all the powers they need to do the job. "It is a question of enforcement. Sometimes the authorities may

not have all the powers that the EU has to mount major investigations. If you have a hard core cartel you must have the necessary powers," says a Brussels official.

Some existing laws create severe problems for anti-trust authorities. Polish rules ensuring confidentiality and business secrecy are a case in point. Unless these are changed investigations of cartels and state aid will face severe problems, officials warn. Nevertheless, a Polish clamp-down on a local sugar cartel is held up as an example of success in the anti-trust field. Apart from Poland and Bulgaria, the candidate countries have rather ambitious laws providing for wide powers to do dawn raids. The real problem is the lack of experience in carrying out those inspections and the lack of experience in collecting sufficient evidence to initiate such inspections.

On state aid especially, central Europe and the Baltic states still have to break away from the recent past and learn how to turn off, or discipline, the flow of government funds to industry.

In Brussels there are still worrying signs that the candidates have yet to get to grips with enforcing the new rules. There is the impression that authorities give too much priority to following up complaints from consumers and small businesses about the contracts that are submitted to them by bigger companies. This is laudable in itself, but is unlikely to uncover the big cartels that can damage economies and distort competition, say western experts.

The small number of notifications about competition cases by companies and lack of cases involving resale price maintenance are also causes for concern for experienced competition officials.

In addition, while most of the anti-trust authorities are adequately staffed, low wages and the lure of the private sector mean they often lack experienced lawyers. Staff have quickly picked up the theoretical knowledge about anti-trust procedures but lack the practical skills, for example in mounting raids on companies.

Awareness of competition rules still has to take root amongst businessmen, lawyers, and decision-makers. "Much remains to be done to install a full competition culture," concludes a recent report by the Commission.

Weighing up the independence of these new cartel busters in the candidate countries is not without risk. Their more mature and experienced counterparts in the EU, including the Commission's own competition directorate, come in for frequent criticism over their political independence. However, some anti-trust authorities in the candidate countries have been rather uncomfortably grafted onto existing ministries, most often those for economic affairs, and have not been given the degree of independence their mission deserves.

As the new anti-trust authorities develop and flex their muscles, the hope, in Brussels at least is, that they will increasingly co-operate between themselves in a bid to prevent regional cartels and dominant positions developing. The situation regarding state aid differs in detail between various countries but is uniform in the impression that a lot more needs to be done. That assessment embraces some countries that have otherwise made progress in the sphere of competition policy. Other countries, such as the Baltic states, have framed ambitious policies to deal with state aid but it is still to be seen whether these will be adequately enforced.

These critical assessments take into account the fact that Brussels is not looking for the candidate countries to reproduce blindly EU state aid disciplines. The EU is prepared to give the extra leeway on subsidies required for economies in transition. That has already been shown in the case of the former East Germany. Strict aid discipline would be inappropriate for attracting or keeping the inward investment needed to push the candidate countries' economies forward.

However, Brussels is looking for evidence that a system is in place that will prevent the damaging effects of state aid spilling across borders and threatening to spark a subsidy race between countries in a process that would damage trade and distort the economies of the countries taking part. It argues that tackling state aid should provide the longer term reward of helping to get the national economy in shape by curbing preferential tax treatment or reductions for companies and tackling tax arrears, tax evasion, subsidised interest rates, debts write-offs, and over generous incentives accompanying privatisation.

Overall there is a lack of clear rules in the candidate countries for monitoring state aid by national state aid monitoring authorities who also lack clear powers to do this job as well as a general misunderstanding of state aid monitoring. In addition monitoring will be done by supranational authorities, such as the Commission.

The problems in the way of such sweeping reform include:

- the lack of a clear picture of who is giving aid to whom and how much. This problem is made all the more intractable since a lot of aid is indirect and therefore difficult to trace.

- much aid is given to boost exports, which are often in a poor state, in a bid to attract foreign currency
- many of the numerous authorities allocating aid are hardly aware they are giving it and may not know how to identify it.
- sometimes subsidies are given by local authorities which feel no need to notify their actions to the government. In many cases certain types of support are a relic from the recent centrally planned economy in which there was no real track kept of what subsidies were being given.

On state aid discipline there are signs that the candidate countries will have to change their ways — and change fast. By the end of 1997 the Czech Republic had in place a set of implementing rules on state aid which will provide it with a clear framework to discuss subsidy questions with the EU. The Czech Republic was the first candidate country to put in place these subsidy rules demanded as part of the Europe agreements.

The remaining nine countries are expected to follow fast in the footsteps of Prague, with the Czech rules serving as the model for the other countries.

The Europe agreements forbid state aid being given by either side which could have an effect on trade between them. They also demanded that the candidate countries approximate their competition rules with the EU's but gave no deadline for doing so and provided no sanctions for failing to deliver.

The implementing rules of the Europe agreements fill in many gaps by providing a framework for each side to raise state aid questions and to try and resolve them.

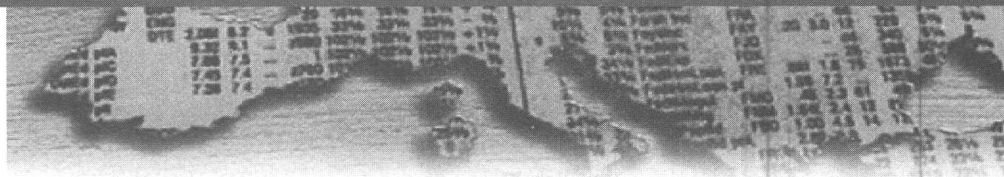
Such procedural steps were missing before and left each side with the uncomfortable dilemma of deciding if and when to resort to the final punishment of trade sanctions if it was not getting satisfaction from the unstructured discussions.

The implementing rules will also call on each side to draw up a full inventory of all the direct and indirect aid that is being provided. The EU has pledged it will assist the Czech Republic in this process.

Help in preparing the competition authorities in the candidate countries has been mostly done so far through the TAIEX (Technical Assistance Information Exchange) office in Brussels (see separate article, page 10). TAIEX gives practical help in aligning applicant countries' laws with those of the EU ahead of accession. TAIEX regularly organises together with the relevant directorate-general, workshops, conferences and seminars aimed at briefing officials on how the EU's competition rules work and how they can best adapt to them to local circumstance. Under the Union's pre-accession strategy, TAIEX initiatives will now be extended to government institutions, private companies and non-governmental organisations. ■

Kenneth Jones, Brussels

in brief



Guide on EU environmental law published

The first comprehensive guide to the approximation of EU environmental legislation ever produced by the Commission was presented by Commissioner Bjerregaard to environment ministers from the 10 associated countries at an informal meeting in Brussels in September 1997. The aim of the guide is to serve as a practical tool for authorities in the associated countries involved in the process of adapting national legislation and administrative practices to the environmental *acquis* (body of law).

According to Timo Mäkelä, head of DG XI.A.4, the part of the environment directorate-general dealing with approximation issues, "There has been a very strong demand for such a guide from our counterparts in the associated countries to help them steer through the maze of EU environmental legislation they have to deal with in the approximation process. The total body of EU environmental legislation is big and complex. It has developed over the last 30 years and today comprises some 300 legal acts, including directives, regulations, decisions and recommendations — plus a large number of communications and other policy documents of relevance for EU

environmental policy."

The body of EU environmental legislation, with which the associated countries have to align their national legislation and administrative practices as a condition for EU membership is neither as huge nor as disparate as it may seem. What makes the total list look so long are in fact the many amendments and pieces of "daughter" legislation which have been adopted to core legislation over the years.

If only the legislation which is meant to be binding law in new and existing member states is counted, the total environmental *acquis* can be condensed to a list of about 70 core directives (some of which have been amended several times and supplemented with daughter directives) and 21 regulations.

This condensed list of all the environmental legislation which the candidate countries have to integrate into their legal systems forms the backbone of the guide.

The Commission's 1995 White Paper on the single market emphasised the need for bringing the EU legislation related to the single market in place in the candidate countries as a condition for membership, but only about half of the environmental *acquis* —

36 directives and 11 regulations — relate to products and are covered by the White Paper.

It would be a misunderstanding to assume the environment legislation not covered by the White Paper is of secondary importance or something that might be disregarded. Environment Commissioner Bjerregaard emphasised during her visits to the candidate countries that it is the whole of the environmental *acquis* which has to be taken on board as a condition for membership. Some of the most important pieces of EU environmental legislation are not covered by the White Paper.

The White Paper says there is a need to complement the survey of the environmental legislation related to the single market with a more comprehensive presentation, covering the whole of the environmental *acquis*.

The guide is directly targeted to the authorities in the associated countries, primarily civil servants in the ministries of the environment, who are involved in the process of bringing the environmental legislation and administrative practices in their countries in line with EU environmental legislation. The guide may also be useful for local authorities, industry representatives,

non-governmental organisations, journalists and others who are interested in finding out what is required in order to meet EU environmental standards.

The term "approximation" is often misunderstood. As explained in the guide, in the legal language of the EU the term has a special and more precise meaning. It is not just a question of bringing national legislation "closer to" the EU legislation but means the complete alignment of national legislation so that it complies 100 per cent with the requirements of EU legislation — not just on paper, but also in fact. The guide is accessible on Internet:

<http://europa.eu.int/en/com m/dg11home.html>. To view it, select "Guide". Only a limited number of paper copies are available for distribution, but a special function allows downloading of the whole or parts of the guide on Internet.

For authorities and other interested parties in the associated countries who do not have access to Internet, a printed version of the guide can be obtained by contacting the DG XI Help Line (Tel: (322) 296 8746; Fax: (322) 299 4123; E-mail: enlargement@dg11.cec.be).

in brief

Linking east and west

Transport ministers from nine Black Sea countries gathered in Burgas in early autumn to discuss plans for a highway linking the Adriatic Sea with the Black Sea. Attending the three-day meeting were transport ministers from Albania, Azerbaijan, Bulgaria, Georgia, Kazakhstan, the Former Yugoslav Republic of Macedonia, Turkey, Turkmenistan and Uzbekistan. The scheme, known as TRASECA, is one of nine trans-Balkan highways whose construction the EU will help finance. Work has been stalled by political and economic instability in Albania, Bulgaria and FYROM. Transport plans also call for expanded ferry services between Italy and Albania, a new ferry line between Burgas and Georgia's Black Sea port of Poti and new highway links across the countries.

Poland wants help with farm sector

Poland has suggested that the Commission sets up an Ecu 1.05bn pre-accession fund to help reform its farm sector. According to the former Polish Agriculture Minister Jaroslaw Kalinowski, "I think there is a chance that by the beginning of 1998 we will get a reply concerning our application and there will be talks on when the funds will be released and how much." Poland applied in July for the money covering the years 1998-2000 for three priority areas — modernisation of the

food sector (Ecu 300m), development of rural infrastructure (Ecu 400m) and creation of institutional base and administrative structures to implement EU regulations (Ecu 350m). Poland is concerned that farmers from the candidate countries will not qualify for compensation payments once they enter the EU.

Energy agencies expand

The Commission created over 30 energy agencies in 1997. Under SAVE II, the multi-annual programme to promote energy efficiency, 21 regional energy agencies and 11 urban energy agencies will benefit from EU funding of Ecu 175,000 in their first three years of operation, totalling Ecu 5.425m. This brings the total number of agencies set up with Commission support to 141. The main objective of regional and urban energy management is to define and implement a series of activities aimed at improving demand management by promoting energy efficiency and at ensuring better use of local and renewable resources, while making the local policy-makers more aware of the impact of energy on the other policies for which they are responsible.

CAP reform proposals

Farm Commissioner Franz Fischler outlined the goals of common agricultural policy (CAP) reform at an informal Agriculture Council held in the autumn of 1997. The reforms, outlined in Agenda 2000 (ED 1997/6, page 2), include greater

competitiveness on the internal market and abroad, a fundamental commitment to food safety and quality, safeguarding an adequate standard of living for people working in agriculture and promoting stable agricultural incomes, incorporation of environmental goals into the CAP, creating alternative sources of income and employment in rural areas and simplification of Community agricultural law. Mr Fischler told ministers attending the Council meeting, "The Agenda 2000 proposals will not come into effect until the year 2000 and they will enable us make the best possible use of existing commitments and also increase our freedom of action and strengthen the Union's negotiating position in a future World Trade Organisation trade round." He says he would prefer to have a "careful, forward-looking improvement of the CAP rather than be compelled to react to international pressures with radical changes which would shake the confidence of our farmers". Mr Fischler believes rural development policy cannot be limited to just a few problem regions and that no rural area should be excluded from rural development policy.

Cefta expansion?

At a summit of Central European Free Trade Agreement (Cefta) members in Portoroz, Slovenia, in the autumn 1997, officials of six countries seeking membership — Bulgaria, Croatia, Latvia, Lithuania, Macedonia, and Ukraine — were guests. Talks on Bulgaria's membership in Cefta were opened and are

expected to finish early this year. Prime ministers of the six member countries, Slovenia, Poland, the Czech Republic, Slovakia, Hungary and Romania, attended the meeting. Cefta was established in 1991 to abolish trade barriers and establish a free trade area by 2001. Bulgarian membership would enlarge Cefta to a trade area of 100m people. At the meeting Ukrainian Prime Minister Valery Pustovoitenko agreed with Cefta on a plan for his country's entry into the organisation. The scheme envisages concluding bilateral free-trade agreements with Cefta members.

Polish-Lithuanian co-operation

Poland and Lithuania have launched a government co-operation council. Members of the new body met in Vilnius in the autumn 1997 under the chairmanship of Lithuanian Prime Minister Gediminas Vagnorius and his Polish counterpart, Wlodzimierz Cimoszewicz. The council aims to increase co-operation in security, education, culture, and the economy. It will also form a joint peacekeeping battalion, to be stationed in Poland. The council will also deliberate on such matters as joint border controls, national minorities and the integration of Baltic states into western international institutions. The two countries already have joint presidential and parliamentary consultative forums. The council "opens a new important stage in the deepening and strengthening of Lithuanian-Polish relations," remarked the two prime ministers.

News in brief ... News in brief ... News in brief ... News in brief ...

Since September 1997, Slovenian and Italian citizens are now able to cross their common border with only identity cards.

The Czech Republic has lifted the deposit obligation imposed on a range of imports into the country. The Commission considered the deposit to be in contravention to the Europe agreement. Following the decision by the Czech government, the process of arbitration (foreseen by Article 107 of the Europe agreement between the EU and the Czech Republic and which would have been activated if the import deposit scheme had remained in force after mid-September), will no longer be necessary.

The Polish government has adopted a 15-year plan to modernise its armed forces at a cost of tens of billions of zloty. Forces will be cut from 220,000 to 180,000 and military service shortened to 12 months. Equipment needs include anti-tank missiles and electronic devices for Poland's Huzar helicopter. The helicopter deal is being contested by Israeli firms and a consortium led by the US. Boeing company and backed by Nato states.

The wealth gap between the EU and the candidate countries is narrowing, according to data collected

by Eurostat, the EU's statistics office. It says the average per capita GDP in the 11 countries seeking membership was 32 per cent of the EU average in 1995. The figure was up from 30 per cent in 1993. Annual GDP growth in the candidate countries is more than twice the rate in the EU at 5.2 per cent in 1995 compared with 2.4 per cent in the EU. The data were adjusted to eliminate the effect of different prices for comparable goods and services.

European Investment Bank (EIB), the EU's investment financing arm, is providing Ecu 20m to the Ventspils Port Authority for upgrading Latvia's largest sea port. The loan will help improve access to the port through dredging works on the channel entrance and in the river-harbour in order to accommodate larger vessels.

Hungary and Romania are to participate in EU programmes in the fields of education, training and youth. Following association councils, the Socrates, Leonardo and youth programmes are to be opened to these two countries.

The Commission has approved an initiative for cross-border development under the Interreg programme between Italy and Slovenia. Funding of

Ecu 16m will be provided for projects expected to total Ecu 31m. The programme's priorities are enhancement of natural resources and the environment as a means of developing tourism, the abolition of barriers between communities on either side of the border, shared training schemes and encouragement of co-operation between businesses, investment aid and support for innovative schemes in the service sector.

The Commission has launched 70 new teaching actions under the Jean Monnet initiative in universities in Poland, Hungary and the Czech Republic. It has approved subsidies for the creation of six new university chairs (three in Poland, two in the Czech Republic and one in Hungary), 26 new permanent courses and seven European modules, 12 doctoral research grants and 19 other university activities centred on European integration. The Jean Monnet initiative aims to promote teaching on European integration in universities, in particular in law, economics, political science and history.

Prime Ministers of Poland, the Czech Republic and Hungary are to co-operate more and co-ordinate their respective positions as much as possible in order to facilitate and accelerate EU membership

negotiations. Foreign ministers are to step up their working contacts to inform one another of the state of negotiations.

A document providing for the establishment of a joint Hungarian-Romanian peacekeeping battalion was signed in Bucharest at the end of 1997. The battalion will become operational in the second half of 1998.

Hungary's first commercial television station began broadcasting at the beginning of October 1997. A second private television station also began broadcasting in October.

A Czech-German Fund for the Future began operations on January 1 1998. Germany put DM 140m (Ecu 71.4m) and the Czech Republic Kr 440m (Ecu 12.3m) into the fund. The money will be used for the victims of Nazism but not as compensation to individuals.

Slovakia is talking with Turkey about possible co-operation in producing the T-72 tank and the Suzana self-propelled cannon.

The Council of Europe's Parliamentary Assembly says it is largely satisfied with the Czech Republic's progress toward amending laws since 1989. But the assembly did adopt a committee report criticising a 1991 law banning former

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communist officials from holding key posts. The report also says that although the Czech Republic's current citizenship law has been substantially improved since 1996, it still poses problems for ethnic minorities owing to an allegedly "discriminatory attitude" among some Czech bureaucrats.

Lithuania's parliament has set up a European affairs committee. First deputy parliamentary chairman Andrius Kubilius was appointed head of the 24-member group.

Latvian Prime Minister Guntars Krasts is to supervise the work of the European Integration Bureau, which will co-ordinate the activities of the various agencies involved in country's bid to join the EU. Mr Krasts was "disappointed over the negative assessment by the European Commission" and has decided to raise the status of the bureau.

Slovakia has set up a parliamentary committee for monitoring the secret service. Opposition deputies will be represented on the commission. The move was taken to comply with the political criteria set for Slovakia's invitation to EU entry talks. The government is also preparing a bill on the

protection of languages of ethnic minorities.

Ukraine and Hungary are the first non-Nato countries to establish missions accredited to the alliance.

Canada has reimposed visa requirements for Czech citizens following an influx of Roma asylum seekers from the Czech Republic. The Canadian Citizenship and Immigration Ministry sees no change in the trend and that measures taken so far seem to have had no effect.

According to a government Statistical Office's Institute for Public Opinion Research report published in autumn 1997, 62 per cent of Slovak citizens distrust the government and 67 per cent the parliament. The Slovak Army came out on top with 73 per cent of respondents saying they have confidence in the military while 67 per cent said they have trust in Slovak Radio and 66 per cent in TV Markiza, a private television station.

The Hungarian government has set up a foundation to support research into the situation of ethnic minorities in Europe. The foundation started working on 1 January 1998 and will have a Ft 50m (Ecu 282,700) budget.

Defence ministers from the

Czech Republic, Hungary and Poland have agreed to co-ordinate military policies and purchases in their bid to join Nato. The three countries, however, are not yet ready to make joint purchases but will explore that option in the future.

The Russian government has agreed to supply Slovakia with an S-300 PMU anti-aircraft system and other military equipment to pay off more of its \$1.7bn (Ecu 1.5bn) debt to Bratislava.



Sue Cunningham Photographic

AROUND THE CANDIDATE COUNTRIES

SEPTEMBER 1997

- 12-13** Summit of Central European Free Trade Agreement (Cefta) took place in Portoroz, Slovenia, attended by the prime ministers of the six member countries: Slovenia, Poland, the Czech Republic, Slovakia, Hungary and Romania
- 15** Polish Prime Minister Wlodzimierz Cimoszewicz visited Lithuania
- 15** German Defence Minister Volker Rühe visited Prague
- 16** Negotiations between Poland and Nato aimed at finalising the terms for Warsaw's entry into the alliance began in Brussels; Council of Europe symposium on social cohesion for a Europe without exclusion held in Bratislava
- 17** Czech and Slovak army chiefs-of-staff met in Trencianske Teplice, Slovakia, and agreed on a schedule for joint military exercises in 1998
- 18** Slovak President Michal Kovac began a visit to Turkey; Association Committee held between EU and Romania in Bucharest
- 23** Negotiations between the Czech Republic and Nato aimed at finalising the terms for Prague's entry into the alliance began in Brussels; Slovak Prime Minister Vladimir Meciar visited Croatia for economic talks; Hungarian Minister of Justice Pal Vastagh and his Romanian counterpart, Valeriu Stoica, met in Budapest to sign an agreement on co-operation
- 25** Lithuanian Prime Minister Gediminas Vagnorius visited Germany
- 26-27** Romanian Defence Minister Victor Babiuc visited Hungary and met with his Hungarian counterpart György Keleti
- 29** Romanian President Emil Constantinescu met in Brussels with Commission President Jacques Santer

OCTOBER 1997

- 2** Nato Secretary-General Javier Solana met with central European officials in Maastricht
- 3** International Monetary Fund conference on the changing role of central banks in Europe held in Vilnius; defence ministers from south-eastern Europe and their Nato counterparts met in Sofia; the presidents of Turkey, Romania, and Bulgaria signed a declaration on co-operating to fight organised crime, terrorism and drug and weapons trafficking at a meeting in Varna
- 8** Hungarian Foreign Minister Laszlo Kovacs and his Romanian counterpart, Adrian Severin, headed the first meeting in Bucharest of the joint commission supervising the implementation of the 1996 basic treaty
- 9** EU Transport Ministers met for structured dialogue with candidate countries in Luxembourg
- 15** German Foreign Minister Klaus Kinkel visited Bulgaria
- 16** Foreign Affairs Commissioner Hans van den Broek visited Bulgaria
- 17** Foreign Affairs Commissioner Hans van den Broek visited Romania
- 20** Hungarian Prime Minister Gyula Horn visited Romania
- 23** Single Market Commissioner Mario Monti visits Romania
- 27-28** Association Committee for Bulgaria held in Sofia
- 30-31** Single Market Commissioner Mario Monti visited Hungary; Foreign Affairs Commissioner Hans van den Broek visited Turkey

NOVEMBER 1997

- 2** Romanian Prime Minister Victor Ciorbea visited Israel
- 3** Balkan summit meeting held in Crete, Greece
- 3-4** Commission President Jacques Santer visited Latvia, Lithuania and Estonia
- 4** Hungarian President Arpad Goncz began visit to Uzbekistan, Kyrgyzstan, and Kazakhstan
- 7** Regional Affairs Commissioner Monika Wulf-Mathies visited Hungary
- 21** Budget Commissioner Erkki Liikanen visited Hungary
- 23** Presidential elections held in Slovenia

DECEMBER 1997

- 12-13** European Council held in Luxembourg

Pensions reform challenges faces European governments

The rapid ageing of the population in both the EU and in the candidate countries in the next decades will put even more pressure on existing pension systems and make it difficult to cut government budget deficits.



It is hard to avoid the issue of pension reform in most European Union (EU) countries. Governments

are trying to find ways of introducing sustainable systems that balance the ever-increasing demands on pay-outs from the state pension funds and still meet the fiscal objectives of the Maastricht criteria for entry into economic and monetary union (EMU).

Headlines in the financial press — "Pensions deal boost to Italy's EMU prospects" and "Backlash over German pensions policy" — greet the reader almost every day as many EU member states struggle to find a workable solution.

The core of the problem is that pension funds in most countries are funded through a state scheme. Governments are finding it difficult to make pay-outs from state funds to an increasing number of workers now of pensionable age.

This growth in the number of pensioners is not balanced by increased inflows into the state coffers. The working population is declining relative to the population of pensionable age. The situation demands attention.

Almost all countries both inside the EU and those waiting to join are trying to find ways to cope with changes in demographics that, without some alteration in government policies, will mean that expenditure on pensions will rise inexorably as a proportion of gross domestic product (GDP) over the next few years. The situation varies slightly from one country to another depending on how strong the demographic trend is and how generous the existing pension provision is. Nevertheless, most of countries will have to tackle the problem eventually regardless of possible EMU membership or EU accession.

For some member states, most notably Italy, the problem has become pressing because it carries implications for that country's ability to meet the Maastricht criteria. The latest reform proposals, which are the third by an Italian government in the past five years, will raise the age at which millions of Italians may retire, but will probably not lead to the long-term structural reductions in pension outlays — now around 14 per cent of GDP — needed to

put a sustainable system in place. Italian Prime Minister, Romano Prodi, believes he is one of the few European leaders making progress in adjusting his country's pension liabilities. "In Germany it [pension reform] hasn't happened. In France they tried to do it, but there was a big popular reaction. The fact is that on this sort of issue, you never get to achieve 100 per cent of what you initially set out to do," says the pragmatic Mr Prodi.

Almost all countries both inside the EU and those waiting to join are trying to find ways to cope with changes in demographics that, without some alternation in government policies, will mean that expenditure on pensions will rise inexorably as a proportion of gross domestic product (GDP) over the next few years.

Populations are reluctant to accept changes to pension systems. In the EU many countries' generous schemes are bankrupting government coffers, but attempts at cut-backs cause wide-scale popular discontent both within the population at large and by industry and trade unions. Germany's attempts at reform are facing strong objections from industry in particular and politicians eager in the run-up to elections to please voters. The latest reform package has been called a "complete disaster" by the German industry association and "catastrophic news" for German competitiveness by the Free Democratic party, the junior member of the centre-right coalition.

The 10 applicant countries from central Europe and the Baltic states also need to address this problem. One of the criteria for EU membership is a sound economy and in order to put their economies on a sound fiscal footing, the candidate countries will face the same problems as EU member states in finding a workable and long-term solution for funding pensions. Politically this may be tricky. The populations in the candidate countries are



already reeling from massive social and economic upheavals following the overthrow of communism. They may be reluctant to accept less generous state pension payments on top of other cut-backs.

Even before the economic transition began, many central European countries faced an increasing drain on state finances in the pension area and were looking at ways to reform the system. Coupled with this is now the need to get their fiscal houses in order before EU membership. This means, among other things, having a sustainable pension system in place.

The urgency of the issue is caused by the ageing of Europe's population at a time when overall birth-rates have declined. Over the next 35 years the share of those aged 65 years and over in the total European population will rise from 15 per cent to 25 per cent. By then the baby-boomer generation of the 1960s will also have retired, putting even more strains on government budgets.

Demographic trends in the candidate countries, are similar to those in EU member states. Future demographic changes and the attendant serious consequences for the financing of pensions mean the fiscal burdens of pension systems will worsen soon, says a report* on pension systems. The study on reforms in Britain, Hungary, Italy, Poland and Sweden was financed by the EU Phare ACE programme. It analyses and compares the pension systems and reforms of these five countries and discusses issues of relevance to all or most of them.

The need for pension reform is also mentioned in many of the opinions presented by the Commission in July 1997 on the readiness of the 10 candidate countries to join the EU (see box article page 23). For some countries it is singled out as a priority issue for the government to tackle.

The bottom line for Europe as a whole is that fewer working-age people will have to support an ever-increasing number of retired persons. At present the ratio

of those aged 15-64 to those over 65 is 100:20 in OECD countries. In Germany, for example, this ratio will rise to about 50 per cent by the year 2030. Since an average two-thirds of people aged 20-59 work, there were roughly two employed persons for every one person retiring in 1990. With these demographic changes in mind, contributions to state pension systems in Europe as a whole cannot be maintained at their current levels, concludes a report** by Dresdner Bank. Even taking into account reforms that have already been adopted, EU member states, as well as the candidate countries, are searching for ways to create sustainable pension systems. Since pension systems are not within the EU's legislative competence, each member state chooses its own way of doing things. This has led to a variety of systems and a diversity of funding options.

Even before the economic transition began, many central European countries faced an increasing drain on state finances in the pension area and were looking at ways to reform the system.

Possible measures that could help limit the state's increase in contributions include raising the official retirement age, modifying the level of state subsidy to pension funds and lowering the cost of state benefits. Lower statutory pension levels and subsequent rises in contributions are not enough to finance pensions in the long-term. Governments need to promote individual savings for retirement and expand company and private pension plans.

Increasingly pension systems in European countries are supplementing the existing state provision with company pension funds and individual savings plans. The design and relative importance of each element vary from country to country. In all the member states, with the possible exception of Britain where the government plays a minimum role, the state pension system still plays the most important role.

In some countries company pension funds are prescribed by law and private savings schemes are designed to supplement retirement income on a voluntary basis. To supplement relatively low basic (state) pensions, some countries have mandatory supplementary pension schemes specified by law or by wage agreements, mostly in the form of company pension plans.

Since 1985 all EU countries except Denmark and the Netherlands have implemented or passed pension reforms. Most of these reforms have led to a reduction in state pension benefits and the creation of supplementary company pensions schemes in the form of private pension funds.

There have also been changes made to the number of



Sue Cunningham Photographic

years a person has to work to qualify for the maximum pension or to the benefit rate per contribution year.

Whatever the problems and questions faced by governments over the pension reform debate, there are no easy solutions and no one system that can be transplanted in its entirety from one country to another. Historical factors, specific conditions in each country and individual fiscal constraints will dictate how pension reform is handled.

It is likely that the heated and highly politicised debate in most European capitals over pension reform is likely to continue well into the next century.

With EMU entry looming for existing EU member states and EU accession coming closer for the 10 candidate

country governments, getting fiscal houses in order will remain high on the agenda for some time. ■

** Public pension expenditure prospects in the EU: a survey of national projections by Daniele Ranco and Teresa Munzi. A summary of the report is available from ACE, 26 Rue de la Loi, 1040 Brussels.*

*** Pensions to be put to the test: the future of pension systems by Renate Finke, Marc Piazzolo and Jurgen Stanowsky for Economic Analyses, July 1997 available from Dresdner Bank, Jurgen-Ponto Platz 1, 60401 Frankfurt/Main.*

Social policy: pensions

What the opinions say on pensions

The Commission's overall view as expressed in the opinions released in July 1997 is that "continued efforts are required to ensure that measures of social protection are developed in all 10 candidate countries". In some cases the comments refer directly to pension reform. The following is a selection of the most pertinent comments contained in the opinions about pension systems operating in the candidate states.

SLOVAKIA

In many cases there is a lack of information about the availability of benefits and the conditions for eligibility. Social expenditure accounts for about 30 per cent of total government expenditure and for approximately 14 per cent of GDP. Pensions are the largest expenditure item.

SLOVENIA

Slovenia has the same type of financing problems in the area of social security that are encountered in most European countries. In 1994 the part of GDP spent on social security was similar, at 25 per cent of GDP, to that of many member states. Unless the social insurance system is reformed, a widening deficit will strain the national budget in the near future. Some of the changes in the system, however, may increase the risk for some groups to fall through the net of social protection. Social assistance schemes as a means of last resort are rather poor.

HUNGARY

Hungary spends about 22 per cent of its GDP on social security and welfare. Social spending, including the pension scheme and health care which are the most important items, constitutes half of government expenditure. In terms of financing, state contributions are more important than taxes and the employer's share is relatively high.

CZECH REPUBLIC

With the exception of employment policy (share of total contribution 0.2 per cent of GDP), the pattern of spending is similar to the EU member states: the largest share of total expenditure on social security is spent on pensions (8.8 per cent of GDP), followed by health care expenditures (8.1 per cent of GDP 1995 figures).

POLAND

New social security schemes are being developed in difficult conditions of fiscal restraint, including the task of modifying the indexation of pensions. The Sejm (parliament) has recently voted through pension reform bills which means that pensions contributions would be funded through the present form of insurance, compulsory and voluntary capital insurance and additional insurance. ■

Britain meets pension challenge

" Britain is unique among European countries in having solved the problem of rising — public pension expenditures and rising tax and contribution rates; it may, therefore, be seen to provide a model for pension reform in other European countries," according to Paul Johnson and Katherine Rake, writing in the ACE report on pension reforms.

Success in controlling the rate of growth in public expenditure has had an inevitable cost in terms of lower incomes for some pensioners.

But they caution this apparent solution is at least partly due to circumstances peculiar to Britain, including a benign demographic situation, the historical provision of an unusual mixed economy in pension provision, and a series of gradualistic public pension reforms implemented over more than a decade.

Even more crucially, success in controlling the rate of growth in public expenditure has had an inevitable cost in terms of lower incomes for some pensioners.

Reforms have reduced the degree of solidarity within both public and private systems, "The long-term effect on pensioner welfare is likely to be a growing disparity between groups of affluent and poor pensioners," Mr Johnson and Ms Rake continue.

Britain is also unique in having a history of a complex system of overlapping pensions schemes. Changes over the past 20 years have caused some Britons to end up with extremely complex pension histories. While many British pensioners are still heavily reliant on income from the National Insurance basic pension, for others this is a virtually meaningless source of income compared to their occupational pensions.

The major changes since the 1980s have reduced the long-term rate of

growth of public pension liabilities.

The main reforms included a switch from earnings to price indexation of basic pensions, the establishment of personal pensions, with incentives for people to contract out of SERPS (state-earnings-related pensions scheme), and the equalisation of male and female pension ages at 65 in the 1995 Pensions Act, a change which will only take effect in 2020.

Although all this has succeeded in cutting cost projections dramatically, Mr Johnson and Ms Rake believe "a combined national insurance and SERPS pension will, in the long-run, be insufficient to keep many pensioner incomes above the poverty threshold that entitles them to means-tested social assistance".

While it may provide the candidate countries with a perfect example of how to keep the costs to their budgets of pension provision to a minimum, Britain example also shows the obvious downside of money-saving measures. ■

Pension mobility becomes an issue

The European Commission does take an interest in pension systems in the overall context of social policy, although for the most part pensions remain in the national domain. One new area where the Commission has been addressing the pensions issue is in context of the single market and mobility of workers.

Problems faced by workers wanting to transfer their retirement benefits across borders were among the points highlighted in a recent report prepared for the Commission by a group of experts led by former European Parliament president Simone Veil.

This is an area which will come under the spotlight in Commission President Jacques Santer's drive to complete the single market by 1999.

The crux of the problem relating to pensions and the single market concerns opposition to cross-border mobility in Germany. Here, and to a lesser extent in Spain and Sweden, many pensions schemes are based on what is called the book reserve system. Under this system money invested in a pension scheme remains within a company and when employees retire, the company pays out from its own assets. Often German employees have to work in a particular

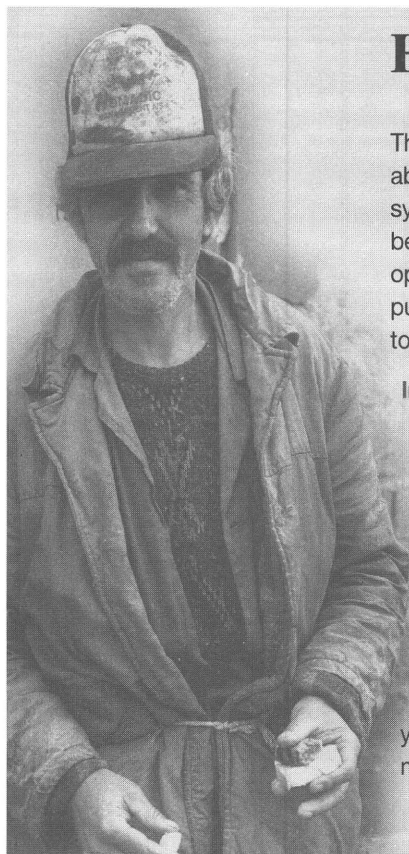
company for up to 10 years before they qualify for supplementary pension rights.

Pensions experts feel it is only a matter of time before crucial changes are made.

"Supplementary pensions are a growth sector and so changes will eventually fall into place. The question is whether the Commission should go on the attack or try to encourage change in the member states," according to Koen de Ryck of the European Federation for Retirement Provision.

Critics claim there is no need for new legislation on pensions mobility because only two per cent of EU nationals actually live outside their home member state. Commission officials counter that problems of this sort may be just the sort of thing which actually puts people off exercising their basic right to freedom of movement.

The need for measures to improve mobility is made even more pressing by the recent explosion in supplementary schemes being introduced across the Union, and the growing recognition that state-run arrangements are falling short of many employees' expectations. ■



Hungary resolves pensions debate

There is widespread support in Hungary about the need for reform of the pensions system. In 1997 a bitter debate had raged between the proponents of two different options: radical reform within the existing pure unfunded system; or partial transition to a privately managed funded system. In

operate and affect various groups and the economy, the changes will make a significant difference.

The new system creates a two-pillar, mixed pension system, with 75 per cent of mandatory contributions going to the existing pay-as-you-go system and 25

In July 1997 the Hungarian parliament passed a number of laws, commonly referred

collectively to as the pensions reform. While many important details of this reform are not yet quite clear, the changes will make a significant difference.

July 1997 the Hungarian parliament passed a number of laws, commonly referred collectively to as the pensions reform. While many important details of this reform are not yet quite clear as it will take several months to see how the new system will

per cent to privately managed pension funds which were set up in late 1997. The mixed system is mandatory for new entrants to the labour market, while switching to it is optional for those who are, or have ever been, employed. ■

Civil servants pose different questions

Western experts have started to look at how public administrations in the candidate countries can improve pension provision for their own civil servants in order to make a career in public service more attractive, improve the professionalism of officials and secure their independence.

A study under the Sigma programme — a joint initiative of the Organisation for Economic Co-operation and Development (OECD) and the EU's Phare programme — suggests different models which could be adopted by the governments in question.

The report points out that "sound financing is a crucial element of a credible, stable and secure civil service pension scheme", and that this can be fulfilled either by a pay-as-you-go system or a system of pre-funding.

In a pay-as-you-go arrangement, the pension amounts are paid on a continuous basis as they fall due. For such a system to be acceptable, the employer must have a reliable, long-term source of income to cover the costs, the report stresses.

Pre-funding means that provision is made for future pension payments by funding in advance, during the earning period. Special measures must be taken to ensure that pre-funded pension obligations can be met when pensions fall due.

Historically most EU civil services operate a pay-as-you-go system for their employees, but — as with the Netherlands and Sweden — the trend is towards a greater element of

pre-funding. Unfortunately, the changeover can put a severe strain on the economy.

Sigma falls short of suggesting the ideal solution for the candidate countries, claiming "it is impossible to generalise about what is the best solution".

In Germany and France civil servants have their own separate and totally independent systems. In Britain civil servants are covered by the general basic pension scheme and on top of that, the main part of their pension provision is by means of a supplementary occupational scheme.

Given the far-reaching financial commitment involved in pension schemes for the state involved, occupational pensions schemes for civil servants are usually embedded in an act of parliament. Nonetheless, the Sigma report stresses that there should be a structure enabling employees to contribute to the discussion prior to their adoption.

Sigma advises that the administration of civil service pensions should preferably be the responsibility of a central body, which is both answerable to those who decide on the pensions conditions and independent of the institutions where the civil servants are employed. On the other hand, capital management should be the responsibility of the administration.

Such advice based on experience in the existing EU member states could prove to be vitally important in steering the candidate countries in the direction of west European style models. ■

Economic growth temporarily slows down

Economic developments in the 10 candidate countries are gradually becoming less homogenous. In the early years of transition, all countries first went through a contradictory phase followed by a period of export-led growth. Afterwards there was a widespread gradual increase of domestic demand, which became the main determinant for economic growth when the European Union (EU) experienced a growth slowdown in 1996.

However, from then on developments started to diverge. While in a number of countries, structural reforms have not made sufficient progress to sustain high economic growth, some economies risked overheating as a result of overly expansionary economic policies.

Nevertheless, both types of economic policy problems have led to identical results: a deterioration of the current account. Because of the different degree of urgency of the external imbalances in the various countries, and of differing reaction speeds of policy makers, the economic growth profiles of individual candidate countries are becoming less similar.

As a result, the aggregate story on the economic developments in the candidate countries is now largely determined by country-specific factors in the main economies. After a deceleration to 3.8 per cent in 1996, average economic growth in the candidate countries is expected to slow down further to 3.25 per cent in 1997. While the initial slowdown in 1996 was mainly the result of slower growth in the EU, the reasons for the mediocre performance in 1997 are more linked to problems in specific countries in the region.

Although Bulgaria is now starting to emerge from its economic crisis, the depth of the depression in 1996 and the first months of 1997 was such that for the year as a whole it is certain that there will be another large fall in GDP.

In Romania, the restrictive monetary and fiscal stance, and the much overdue structural reforms of the economy, have had a clear negative effect on activity. The currencies of the Czech Republic and Slovakia came under pressure as a result of rising current account deficits. In the Czech Republic, the serious floods, which submerged one third of the country, and restrictive measures to bring down the excess domestic demand, will temporarily slow down economic growth. The lack of structural reforms and a sufficiently restrictive fiscal policy in Slovakia, could extend the economic slowdown until the end of 1999.

For most countries it is foreseen that in 1998 and 1999 economic developments will improve again, as a result of appropriate policy corrections, the expected acceleration of activity in the EU, and the continued integration of the associated countries in the Union. The only two countries where a significant slowdown of growth is expected are Slovakia (see above) and Poland. In Poland, the reconstruction costs after the floods have led to a temporary fiscal expansion in 1997, which is planned to be reversed in 1998, leading to a slower growth.

Because Poland represents 40 per cent of the overall GDP of the region, the expected economic slowdown in Poland leads to a significant downward revision of the average growth rate

Gross Domestic Product (real percentage change)

| | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|-----------|-------|-------|-------|------|------|-------|------|------|------|
| Bulgaria | -11.7 | -7.3 | -2.4 | 1.4 | 2.6 | -10.9 | -7.4 | 1.2 | 3.5 |
| Czech Rep | -14.2 | -6.4 | -0.9 | 2.6 | 4.8 | 4.1 | 1.2 | 2.6 | 3.6 |
| Estonia | -11.0 | -14.2 | -6.7 | -1.8 | 4.3 | 4.0 | 5.2 | 4.7 | 4.7 |
| Hungary | -11.9 | -3.0 | -0.9 | 2.9 | 1.5 | 1.0 | 3.1 | 3.8 | 4.2 |
| Latvia | 8.3 | -35.0 | -15.0 | 1.9 | -0.8 | 2.8 | 3.5 | 4.1 | 4.2 |
| Lithuania | -13.1 | -37.7 | -24.2 | 1.0 | 3.0 | 3.6 | 5.0 | 5.4 | 5.7 |
| Poland | 7.6 | 2.6 | 3.8 | 5.2 | 6.9 | 6.1 | 6.0 | 4.7 | 5.2 |
| Romania | -12.9 | -10.0 | 1.3 | 3.9 | 7.1 | 4.1 | -3.0 | 2.2 | 4.4 |
| Slovakia | -14.5 | -7.0 | -4.1 | 4.9 | 6.8 | 6.9 | 5.3 | 4.5 | 3.6 |
| Slovenia | -8.1 | -5.4 | 1.3 | 4.9 | 3.9 | 3.1 | 3.4 | 4.3 | 4.6 |
| All 10 | -10.7 | -3.5 | 0.8 | 4.0 | 5.2 | 3.8 | 3.2 | 3.8 | 4.5 |

NOTE: Numbers with a dark grey background indicate periods of a deteriorating growth performance; numbers with a white background indicate periods with constant economic growth (less than one half a percentage point change); numbers with a light grey background indicate periods of an improving growth performance.

Source: Results of the European Commission's autumn 1997 economic forecast for the 10 applicant countries produced by Directorate-General II.

for 1998, compared to the previous forecast (ED 1997/5, page 26), from 5.25 per cent to 3.75 per cent. On the assumption that current economic problems are gradually solved in most countries, a further acceleration of GDP growth to 4.5% in 1999 can be expected.

The inflation picture is also becoming less homogenous. While before 1996 a widespread gradual reduction of inflation was recorded, a number of candidate countries diverged from this trend since then. Some countries which still had relatively high inflation rates (Baltic countries, Poland) managed to reduce their inflation rates significantly in 1996 and 1997; Latvia and Lithuania were even able to reduce average inflation to single digit levels in 1997.

On the other hand Bulgaria and Romania were confronted with major imbalances in their economies, leading to exchange rate problems, an acceleration of inflation, and even hyperinflation in the case of Bulgaria. The sharp increase of the average inflation rate for the applicant countries in 1997 is completely attributable to the inflation surge in Bulgaria and Romania. When these two countries are removed from the calculation, the average inflation rate is expected to decline from 17 per cent in 1996 to 13 per cent in 1997.

Despite sustained high real wage growth, inflationary pressures are expected to ease further in the coming years, thanks to productivity improvements, resulting from the rapid investment growth of the previous years. Only in the countries with very buoyant domestic demand (Czech Republic, Poland and Slovakia) a slight inflation acceleration is expected.

As expected, trade balances are still deteriorating in most countries in 1997.

Although, in contrast to 1996, export growth recovered as a consequence of the upturn in the EU, imports continued to grow fast as a result of strong domestic demand. Therefore, it is likely that the overall trade deficit for the candidate countries will worsen from 7.7 per cent of GDP in 1996 to as much as nine per cent in 1997. The only countries that are expected to achieve a considerable improvement of their trade balance are Slovakia, Bulgaria and Romania.

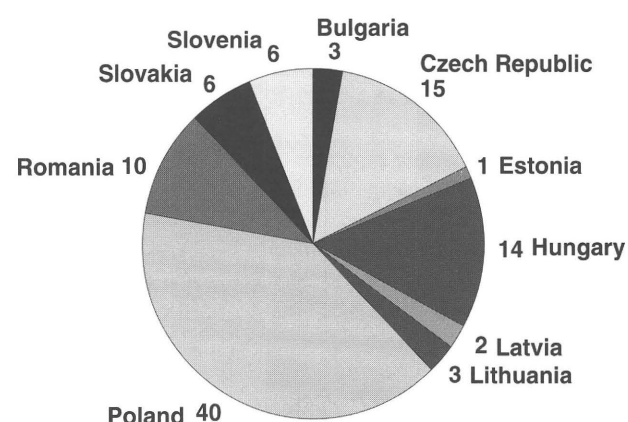
The improvement in Bulgaria and Romania is due to the structural economic reforms that restrict domestic demand and, consequently, imports. For Slovakia the main explanation is that some temporary factors that increased imports in 1996 are not repeated in 1997.

At almost 10% of GDP, the trade deficit remains considerable in Slovakia. In the coming years, export demand should continue to rise as a result of higher economic growth in the EU and the former Soviet Union. Additionally, the increased investment in the previous years should improve competitiveness and push up export opportunities. Nevertheless, the overall trade balance will probably not improve significantly, because continued strong final demand will generate sustained import growth. ■

For more information on the results of the European Commission's autumn 1997 economic forecast for the 10 applicant countries produced by Directorate-General II, please contact Bernard Naudts, European Commission, Directorate-General II, Rue de la Loi 200, 1049 Brussels (Tel: (322) 296 1537; Fax: (322) 299 6151).

Country weights in total GDP, 1997

(in per cent)



Source: Results of the European Commission's autumn 1997 economic forecast for the 10 applicant countries produced by Directorate-General II.

Inflation (private consumption deflator)

| | 1995 | 1996 | 1997 | 1998 | 1999 |
|----------------|------|-------|--------|------|------|
| Bulgaria | 53.8 | 127.5 | 1000.0 | 35.0 | 15.0 |
| Czech Republic | 9.1 | 8.8 | 8.9 | 9.5 | 9.4 |
| Estonia | 34.0 | 23.1 | 10.8 | 8.5 | 7.5 |
| Hungary | 26.3 | 23.3 | 18.2 | 14.0 | 12.0 |
| Latvia | 21.1 | 17.6 | 8.5 | 7.0 | 6.1 |
| Lithuania | 39.7 | 24.6 | 9.2 | 8.6 | 8.1 |
| Poland | 28.7 | 19.9 | 15.0 | 16.0 | 12.0 |
| Romania | 33.3 | 43.9 | 125.0 | 30.0 | 20.0 |
| Slovakia | 9.7 | 5.7 | 6.4 | 7.0 | 7.0 |
| Slovenia | 14.3 | 9.9 | 9.2 | 8.9 | 7.8 |
| All 10 | 25.2 | 24.8 | 53.8 | 15.4 | 11.6 |
| Eight* | 22.6 | 16.9 | 13.1 | 12.9 | 10.6 |

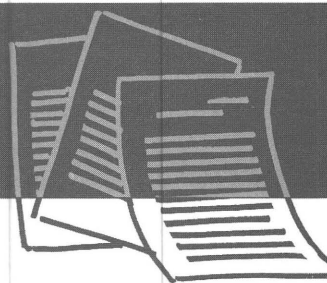
* excluding Bulgaria and Romania.

Source: Results of the European Commission's autumn 1997 economic forecast for the 10 applicant countries produced by Directorate-General II.

Trade balance (percentage of GDP)

| | 1995 | 1996 | 1997 | 1998 | 1999 |
|----------------|-------|-------|-------|-------|-------|
| Bulgaria | 0.9 | 2.6 | 4.1 | 2.7 | 1.7 |
| Czech Republic | -8.0 | -10.9 | -10.5 | -8.5 | -7.9 |
| Estonia | -18.7 | -24.4 | -27.8 | -25.4 | -20.8 |
| Hungary | -5.5 | -6.1 | -6.5 | -7.2 | -8.1 |
| Latvia | -13.0 | -18.5 | -20.7 | -22.1 | -23.5 |
| Lithuania | -11.7 | -15.5 | -18.7 | -21.3 | -25.7 |
| Poland | -1.6 | -6.3 | -9.8 | -10.0 | -10.7 |
| Romania | -4.4 | -7.0 | -5.5 | -4.4 | -3.1 |
| Slovakia | -1.1 | -11.3 | -9.6 | -9.1 | -8.7 |
| Slovenia | -5.1 | -4.6 | -5.2 | -5.3 | -5.6 |
| All 10 | -4.1 | -7.7 | -9.0 | -8.8 | -9.1 |

Source: Results of the European Commission's autumn 1997 economic forecast for the 10 applicant countries produced by Directorate-General II.



TO THE EDITOR

The March-April issue of *European Dialogue* is partly devoted to the question of minority languages. The article on Hungary gives an excellent overview and highlights the problems that can arise from the variable approaches of the countries to their national minorities. It contains a sentence which says that in Hungary many groups speaking minority languages have their own nurseries and schools. This statement shows the characteristic image of Hungary's policy towards its national minorities. This image has been created by the information provided by Hungarian politicians. The truth is that none of the national minorities have any schools in Hungary. Instead, there are a few asymmetrically bilingual schools in which only one (the language of the minority) to three or four (humanities) subjects are taught in the language of the minority. This is the type of school which was intended to be introduced in Slovakia as an alternative to the already existing purely Hungarian minority school system. The political leaders of the ethnic Hungarians in Slovakia were bitter against the opening of bilingual Hungarian-Slovak schools because they were afraid these schools might facilitate the language assimilation. They protested against them both in the Slovak parliament and at many international organisation. Another example of the hypocritical attitude of most politicians and organisations in Hungary is the use of the minority law for propaganda purposes. This law was adopted by the Hungarian parliament in 1993. The minorities were generously asked to take part in its preparation, but then most of their principal comments and suggestions were ignored and a law was adopted which does not bring any significant change in the situation. It declares the principles of an almost perfect minority policy (and, consequently, is suitable for political propaganda), but provides no effective means for the realisation of these principles in practice. For example, it declares the right of minorities to have their own autonomous local governments, but leaves them financially and administratively dependent on the municipal governments and administrative organs. Since the

assimilation by the Hungarian majority has been effective in the past decades, the minorities usually form minorities in the local communities, too. The law simply leaves them at the mercy of local bodies controlled by non-minority voters. In terms of the minority law, the minorities have the right to have their MPs in parliament. However, this and a number of other items of the law require modification of other laws. Little has been done in this respect since its adoption in 1993, although several of those laws (such as the law on parliamentary elections) have been modified. Due to this careless legislative work and many ineffective quasi-regulations, the minority organisations have become resentful and pessimistic about the future of the rapidly shrinking minorities. For example, the number of ethnic Slovaks in Hungary fell from 30,690 (1960) to 12,745 (1990) — by 58 per cent over 30 years. The number of ethnic Hungarians in Slovakia during the same period increased by about 9.3 per cent. Your article does not induce much optimism when it says the EU is not devoting much time or money to solving this problem. Rather, it suggests the EU will approve a solution based on the principle that no ethnic tension justifies the complete assimilation of minorities by the majority nation.

Matej Sipicky
Former chairman of Democratic
Union of Slovaks in Hungary
Budapest, Hungary

TO THE EDITOR

I believe your forecasts about the economy of the 10 candidate countries, published in July 1997/4 issue is misleading. Since April 1997 it has been absolutely evident to everyone that inflation in the Czech Republic will be much more than 8.5 per cent and our GDP lower than 4.6 per cent. In 1993 our foreign debt in convertible currencies was \$8.5bn, the forecast for 1997 is at least \$25bn and according to one independent source in 1998 it will be around \$31bn. The economic situation is pretty bleak for 1997, but many bad symptoms were clear already in 1996 - 25 of the top 100 companies posted lower revenues than in 1995, more than 50 reported lower profits, 16 companies reported a loss compared with eight in

1995. In 1995 our capital account deficit was \$8.22bn, while in 1996 it was only 4.072bn. The current account deficit in 1995 was \$1.362bn and in 1996 it increased to \$4.476bn. This trend will continue in 1997 and 1998. It is obvious that the root of these troubles are to be found in the years 1990-91. There was no skilled and efficient build-up of the framework for a sound microeconomic transformation and there existed exaggerated optimism regarding the market's self-regulatory capabilities. Our privatisation was partly a joke arranged by the architects of our reform who did not know the real situation in our economy — people who just read a few western books. They neglected the careful construction of feed-back which ensures that those who either do not respect the principles of fairness or are not able to meet their liabilities, fail. The capital market is not transparent and the people are disgusted with cases of financial crime. The quality of corporate governance lags behind international standards. There is no hope that the situation can be changed soon, but at the same time we risk losing public trust in the system. We would like to join Nato, but our defence budget has been scaled down to Kr 30.5bn from Kr 32bn and could face further cuts. If we have learned anything in eight years, it is that the transition will take a generation. Political instability and stalled investor confidence will feed into slower growth.

Dr Jaromir Sedlak
Prague, Czech Republic

Have a question?

Do you have questions about enlargement, the accession process or European Union procedures, directives and programmes? *European Dialogue* can help you find the answer. Questions and answers will be published on the letters page in each issue.

Please send your name, title, telephone and/or fax and e-mail numbers and address with your question.

Readers should address their questions to The Editor, *European Dialogue* (Fax: (44 181) 287 1725; E-mail: MargieLindsay@compuserve.com).

ANNOUNCEMENT

Phare ACE Programme 1997 - Call for proposals

The European Commission has launched a call for proposals for Phare ACE 1997 with a budget of approximately ECU 8.5 million for ACE grants.

Phare ACE provides grants for research projects, fellowships, scholarships, seminars and conference participation. Since 1996, a particular effort has been undertaken to increase the number of ACE scholarships for students from central European countries who wish to complete a PhD in economics at an EU university or research institution.

In line with the reorientation of the Phare Programme to focus on preparing for accession to the European Union, the ACE Programme has been adjusted in several ways. Projects will continue to address topics related to the economic reform process in the central European countries. Projects involving Phare countries which are candidates for EU accession, i.e. Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, and Slovenia, will also address topics relevant to the preparation for accession.

Deadlines for the submission of Phare ACE proposals are as follows:

- **For research projects, fellowships, scholarships and seminar organisation the deadline is 31 March 1998.**
- **For conference participation the deadline is open, subject to availability of funds**

For further information and application packages, please contact the ACE Programme Management in Brussels:

ACE Programme Management

26, rue de la Loi

B - 1040 Brussels

BELGIUM

Tel: (+32 2) 280 17 40

Fax: (+32 2) 280 14 06

E-mail: ace97@cartermill.com

Application forms are also available on the Internet

(<http://europa.eu.int/comm/dg1a/phare/programmes/horizontal/programmes.htm>)

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European Dialogue

THE MAGAZINE FOR EUROPEAN INTEGRATION

This is the site of *European Dialogue*, the European Commission bimonthly magazine for Central Europe and the Baltic states.

The magazine is managed by DGX External Information Unit.

The magazine is targeted at «decision-makers/ opinion-formers having an impact on European integrations» in the ten countries that have applied to join the Union (Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia).

The magazine is a forum for discussion, and therefore its contents do not necessarily reflect the policies or views of the EU institutions or Member States.

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March-April 1997/2

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